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RECOUPMENT

in the

FOOD STAMP PROGRAM

United States Department of Agriculture
Food and Nutrition Service
Office of Policy, Planning and Evaluation

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HIGHLIGHTS

In the Food Stamp Reform Act of 1977, P.L. 95-113, Congress directed the Department of Agriculture to perform a study of a recoupment proposal sponsored by Representative James Jeffords. The Jeffords plan would require food stamp recipients to pay back some or all of the food stamp benefits they receive during a calendar year if their adjusted gross annual income for that year exceeds twice the poverty line. The amounts that recipients must repay would be collected through the Federal income tax system. Highlights from the study's findings follow.

- The Jeffords plan would reduce the Federal cost for Food Stamp Program benefits, but increase State and Federal program administrative expenses. Internal Revenue Service expenses for processing income tax returns also would increase. Overall, there would be a small net savings at the Federal level, but only after an initial two-to-three year period of higher net Federal and State spending for start-up.

  - Start-up costs would be $10 million.*

  - After start-up, the net Federal savings would be $48 million annually. State costs would be up by $27 million annually. Overall at all levels, there would be a $21 million savings annually.

  - These amounts could be higher or lower depending on economic conditions, details of the final legislation, and other factors.

- If the plan was enacted prior to April 1980, recovery of benefits would begin in April 1983. This means start-up would extend through 1982, and there would be no savings until 1983.** Faster implementation is infeasible because:

  - Recoupment must be geared to the tax year. To recover benefits on April 1983 tax returns, new data collection procedures must be fully operational by January 1, 1982.

  - Food stamp agencies and the Internal Revenue Service must develop new regulations and undertake major changes in forms, procedures, files, and computer systems. All this will take at least twenty months.

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*Figures are in 1980 dollars.

**In Calendar Year 1982, which is after start-up is completed but before benefits are being recovered, the Jeffords plan would result in net increased spending of $35 million at the Federal level and $27 million for states.

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. The plan would affect a relatively small number of food stamp recipients and recover a modest amount of benefits. The plan would be costly to administer.

- Five percent of all households receiving food stamps at any time during a year period would be subject to recoupment.

- They would owe back 1.5 percent of the total food stamp benefits paid in that year.

- The plan would add $53 million to Federal and State costs for

- If the plan were altered to take back less than a dollar for every dollar earned, there would be less work disincentive. The savings from recovering benefits would be smaller, but would decline less than proportionally with the recoupment rate on each dollar earned.

. The Food Stamp Program and the income tax system use different units: the household and the tax filing unit, respectively. Because some households contain two or more tax units, certain new inequities could arise.

  - Some households would be subject to recoupment even though their gross incomes are below the threshold (twice the poverty line), contrary to the original intent. Other households would not be subject to recoupment even though their incomes are above the threshold.

  - Some households would be subject to recoupment even though they legitimately receive food stamps in all twelve months of the year. Because these households receive food stamps for a longer period of time than others subject to recoupment, they bear a disproportionately large share - 27 percent - of the total amounts owed. Many of these households would have to pay back $300-$800 annually.

. Translating from households to tax units also would have major administrative implications. An allocation scheme would be required to apportion a household's benefits among its members. Four alternative schemes were studied.

  - The allocation scheme proposed in the Jeffords plan would apportion benefits on the basis of individuals members' annual incomes and estimates of the cost of "maintaining the household" over a full calendar year period. This would require in-depth, year-end interviews of all potentially recoupable households--the equivalent of a major multi-month survey that would have to be completed in two or three weeks each January. This is probably not feasible.

  - A modified Jeffords allocation scheme would apportion benefits by certification periods rather than on a calendar year basis. While this would not require the year-end survey, it would involve collection and verification of far more extensive and detailed income and expenditure data than either food stamp offices or the IRS do at present.

  - A third possible allocation scheme would apportion benefits according to the sizes of the tax units within a household. To administer this scheme, food stamp caseworkers would need to have extensive knowledge of income tax regulations. Also, the assumptions that caseworkers would have to make about a

household's tax unit composition would not match actual filing patterns in many cases where changes in households occur during the year.

- A fourth scheme would apportion benefits on a strictly per capita basis within the household. Although requiring less data than the other three schemes, per capita allocations would be furthest from the original intent of the Jeffords plan and would require costly and time-consuming validation of Social Security numbers. Savings from recovery of benefits would probably be smaller than under the original Jeffords allocation scheme.

. Recoupment also would have important administrative implications for the Internal Revenue Service.

- Insufficient information would be available to audit fully the recoupment sections of some tax returns (e.g., when a household changes residences during a year on when a tax filer should report income from dependents on his or her tax return).

- In cases of non-compliance (whether due to misunderstanding or delinquency), the amounts owed would often be less than the cost of collecting them. While more than half of all households would owe less than $200 a year and more than a quarter would owe less than $100, IRS collection costs would average more than $113 per case.

. There could be difficulties coordinating the timing of recoupment reports with the rest of the tax filing process.

- Food stamp agencies would need to send year-end reports (like W-2 forms) to recipients and the IRS by the end of January. Some States do not complete the necessary reconciliation of participation and issuance data for the entire calendar year until mid-February, and would have difficulty mailing out the year-end reports before the end of February.

- If some recipients consequently filed tax returns before receiving their W-2 forms, no benefits would be recovered from them unless they voluntarily send in corrected forms later or the IRS undertook special collection efforts.

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SUMMARY

This is a summary of the findings from a study on a recoupment proposal for the Food Stamp Program. The proposal originates from an amendment offered by Representative James Jeffords to the Food Stamp Act of 1977, P.L. 95-113. Although the amendment did not pass, Congress mandated that the present study be performed to assess the implications of recoupment for consideration by Congress in subsequent years.

The summary is divided into six sections, discussing (1) what recoupment is and how it would work, (2) its impact on Food Stamp Program costs and overall government spending, (3) the types of households it would affect, (4) equity and incentive issues, (5) administrative issues, and (6) comparisons with earlier estimates.

WHAT RECOUPMENT IS AND HOW IT WOULD WORK

The Jeffords plan, if enacted, would require food stamp recipients to pay back some or all of the benefits they receive during a calendar year if their adjusted gross income for that year exceeds twice the poverty line. Under the 1977 Act, households are eligible for food stamps if their net income (after various deductions from gross income as prescribed by the Act) is less than the appropriate poverty line for their household size. Eligibility is determined on a monthly basis. It is possible, therefore, for a household with a low net, monthly income during part of a year to be legally entitled to food stamps for that period, and yet have a gross, annual income for the entire calendar year that is above twice the poverty

line. For example, a household with highly seasonal earnings or spells of unemployment could be eligible for food stamps in some months but have a yearly income above twice the poverty line.

Recoupment is a way of accounting for these variations in a household's income during a year. From a broader perspective, recoupment is one of several possible approaches to the issue of how to enable a program such as Food Stamps, which is based on a short (i.e., monthly) accounting period, to take into consideration applicants' income streams over a longer (i.e., annual) horizon. Other approaches to this issue have included schemes involving summing together several prior months' income at the time of eligibility determination.

Recoupment, unlike many alternative schemes, would retain the short accounting period, allowing the program to continue to be immediately responsive to sudden loss of income. A household that experiences an abrupt worsening of its financial circumstances would be able to begin receiving food stamps as quickly as under the current program.

It can also be argued that with the institution of recoupment the program would be more target efficient, in so far as recovering benefits from relatively higher income recipients is interpreted to imply that the program is targeted more precisely on the groups it was meant to serve and does not provide benefits to those it was not meant to serve. However, this conclusion depends on one's opinion of what the target population

should be, and whether a monthly or annual perspective is adopted. Some opinions hold that recoupment would deny benefits to certain recipients meant to have them.

Other issues discussed in the present analysis include: horizontal equity (to what extent would program participants in similar circumstances be treated the same?); vertical equity (to what extent would participants with greater needs always receive more benefits?); and work incentives (would employable participants find it more or less financially rewarding to increase their work effort?).

The Jeffords plan also specifies exactly how recoupment would be carried out. A key element of the plan is a tie-in between Food Stamp Program administration and the Federal income tax system. The Internal Revenue Service's annual income tax forms would be amended to include questions on food stamps obtained during the year. Recipients would have to reimburse the IRS for the smaller of (1) the full amount of the benefits they received or (2) the amount by which their adjusted gross annual income, as defined for tax purposes, exceeded twice the poverty line. This would mean that their "recoupment liability," or the amount they owe, would be the difference between their actual income and the "recoupment threshold" (twice the poverty line), up to, but not exceeding, the food stamp benefits received. When preparing their tax returns, recipients would subtract their recoupment liability from their tax refund (if they have one). It was expected that in many cases this would take care of the full amount owed. In other cases, after the refund was reduced to zero, there would

remain a payment due to IRS. An additional provision would allow a household to either defer this payment if it is still receiving food stamps at the time tax returns are due, or apply for a waiver of the liability if payment would create a hardship.

Because the tax system would be used, the Jeffords plan would need some procedure for reconciling differences in the definition of a food stamp household and a tax filing unit. In the Food Stamp Program, all persons living together and customarily purchasing food and preparing meals together for home consumption are considered a single household and must apply together for food stamps. Income tax filing units, however, normally consist only of related individuals, and even related persons may file separately. A food stamp household may, therefore, contain more than one tax unit. (In 25 to 33 percent of all food stamp households, the household and the tax unit are not the same entity, according to this study's data.) As a result, the benefits received by a household must be apportioned to its component tax units if recoupment is to be effected through the tax system. The Jeffords plan would deal with this issue by assigning the household's benefits to the individual (or married couple) in the household whose income provided at least 80 percent of the cost of maintaining the household during the calendar year. If no individual or couple accounted for 80 percent of this cost, the benefits would be prorated among members of the household according to their separate contributions. Thus, it would be possible for a food stamp household to have its benefits, and its potential liability for recoupment, divided among two or more tax units.

Variations on the Jeffords plan can be devised by altering one or more of three critical design variables: the threshold income level, the method of apportioning benefits among household members, and the recoupment rate. The recoupment rate is the rate at which liability for benefits is phased in at incomes higher than the threshold. A fourth variable, the definition of income, is also important. Several alternative combinations of these variables are examined in this study.

IMPACTS OF FOOD STAMP PROGRAM COSTS AND INTERNAL REVENUE SERVICE EXPENSES

The Jeffords plan would reduce Food Stamp Program benefit costs at the Federal level, but would increase State and Federal program administrative expenses. Internal Revenue Service expenses for processing income tax returns also would increase. Overall, there would be a small net savings at the Federal level, but only after an initial two-to-three year period of higher spending for start-up.

The magnitudes of these impacts would depend on several factors, including

- the amounts that recoupment households would owe (their "recoupment liabilities")
- the extent to which these amounts actually would be collected, and
- the particulars of the administrative procedures adopted.

These factors in turn would depend on economic conditions, the extent and nature of IRS collection efforts, the final provisions of legislation instituting recoupment, and any future reforms in the Food Stamp Program that may be enacted.

For each component of the costs and savings, a range of estimates was derived and then a best single estimate was determined. The best estimates imply that:

- Start-up expenses would run approximately $5.6 million at the Federal level and $4.4 million for States;*
- After start-up, there would be a net savings at the Federal level of about $48 million annually and a net increase in States' administrative expenses of nearly $27 million annually. Overall at all levels, there would be approximately $21 million net savings annually.*

If the plan were enacted in the fall of 1979 or the winter of 1980, recovery of benefits could begin in April 1983.** The year-by-year impacts (in millions of 1980 dollars) would be:

Fiscal Year	Federal Cost (+) and Savings (-)				State Administrative Costs	Total
	Food Stamp Program					
	Administrative Expenses	Benefits Recovered	IRS	Total		
1980	+ .3	-	-	+ .3	+ .3	+ .6
1981	+ 4.1	-	+1.2	+ 5.3	+ 4.1	+ 9.4
1982	+26.6	-	+8.4	+35.0	+26.6	+61.6
1983(and annually thereafter)	+26.6	-83.4	+8.3	-48.4	+26.6	-21.8

*Figures are in 1980 dollars and do not include savings or costs for Puerto Rico or other territories. Those areas currently account for 12 percent of Food Stamp Program benefit costs annually, but cannot implement the Jeffords plan as currently constituted because territories are not subject to the Federal income tax.
Also, start-up figures do not include $62 million in regular administrative expenses the first year of operation, when no benefits are recovered. See table above for details.

**See "Administrative Issues" section below on timing of implementation.

A breakdown of these figures follows.

Recovery of Benefits

The estimated $83.4 million annual savings from recovery of benefits assumes that households subject to recoupment would have a total recoupment liability of $105 million a year, and that 79 percent of this would actually be collected.

The $105 million in total recoupment liability is the midpoint in a range extending from $87 million to $124 million. These latter figures are the best estimates obtained from two different data bases.* The $124 million is almost certainly too high due to a bias involving the income data. The $87 million has no known bias; although some of its underlying assumptions may put it slightly on the low side, others have an offsetting effect. However, to be sure that the savings from recoupment would not be underestimated, the midpoint between the two estimates was selected, yielding $105 million.

The above estimates were derived in part from survey data reflecting 1975 economic conditions.** Because unemployment was exceptionally high that year (8.5 percent, as compared to 6.0 percent in August 1979), food stamp

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*The data bases are, respectively, (1) the Survey of Income and Education and (2) the Survey of Income and Education matched with the Survey of Income, a compilation of Treasury Department tax records. Both estimates are lower than had been generally anticipated in 1977. The reasons for this are discussed in the concluding section of the Summary. On the possibilities for bias in the estimates, see the main text for details.

**See main text for details on the estimation procedures and the technique used to project to 1980.

rolls included a greater than normal number of households likely to be subject to recoupment (i.e., earners who needed food stamps when they were out of work temporarily, but finished the year with income exceeding twice the poverty line). As a result, the $105 million estimate is higher than can be expected for most years, when unemployment is below the 1975 level.

Also, the $105 million is based on the new eligibility rules and income limits mandated by the 1977 Act. These reforms eliminated from the program many participants who would have been subject to recoupment, and reduced the benefits received by many others. Comparison of estimates derived under the old and new rules shows that the reforms have reduced the total recoupment liability by 7.1 percent.

More recently, further changes in the program enacted in July 1979 will allow individuals over 60 or receiving Supplemental Security Income or Social Security disability benefits to deduct medical expenses over $35 a month from their income when their food stamps are computed, and will remove the ceiling on shelter cost deductions for households containing such persons.

The 1979 changes may increase the recoupment liability slightly. However, only a very minor increase is likely because most elderly and disabled households covered by the new provisions do not have significant earnings and would not be subject to recoupment. At the same time, for that small percentage of elderly and disabled households with high medical and/or

shelter expenses who would be subject to recoupment, a somewhat anomalous situation could arise. Some of these households could receive food stamp benefits all 12 months of the year due to the new amendments, and then have to pay back some of their benefits the following April.

Collectibility

The extent to which recoupment liabilities would actually be collected depends on a number of factors, including the degree to which liabilities can be offset against tax refunds, how many recipients would file incomplete or incorrect tax returns (by mistake or in deliberate non-compliance), and what would be done about such problems. In addition, the collectibility of the amounts owed is limited by the waiver and deferral provisions.

Several findings are important in this regard:

- 48 percent of the total liability could be recovered from recipients' tax refunds if their returns are all complete and correct;
- The remaining 52 percent would be payable by check or cash when returns are filed; and
- 7 percent of the above would qualify for deferral.

Furthermore,

- More than half of all households subject to recoupment would owe less than $200 for the year. More than 25 percent would owe less than $100.
- Collection costs would exceed $113 per case on average. Where special enforcement activities are required (e.g., investigation and prosecution), the cost would be greater.

Because so much depends on voluntary compliance, collectibility is difficult to estimate in advance. Nevertheless, in light of the Internal Revenue Service's experience with other kinds of income tax liabilities, it can be expected that the amount recovered would not exceed 79 percent of the total owed. This leads to the best single estimate of about $83.4 million (out of the $105 million owed). The $83.4 million assumes that (1) all amounts obtainable from tax refunds (48 percent of the total liability) would be recovered, (2) 10 percent would not be recovered due to waivers and deferrals, and (3) three quarters of the remainder (three quarters of 100-48-10=42 percent) would be recovered by check or cash.

Actual collections could fall short of $83.4 million for any of several reasons. The amounts obtained from refunds conceivably could be less than the full potential in so far as tax returns are not all complete and correct. Moreover, with so many households owing only small amounts (100 or $200 or less), some may be prone simply to ignore their liability. With collection costs often exceeding the amount to be collected, the Internal Revenue Service would be hard pressed to justify vigorous enforcement activities in these circumstances. Finally, certain households (e.g., some that change residences during the year; see the "Administrative Issues" section below for details) would be untraceable, either for sending them the information they need to compute their liability or for checking up on them.

To the extent that any of these points would be significant, $83.4 million would be on the high side and the savings from recoupment would be less than previously indicated.

Administrative Costs

The administrative cost estimates given in the table above ($62 million a year in State and Federal costs, including IRS expenses, were derived from task-by-task analyses of the detailed responsibilities of Federal, State, and local Food Stamp Program authorities and the Internal Revenue Service in both the start-up and operating phases. Extensive data were obtained from eleven States and several Federal agencies. Costs were calculated for the additional burden of recoupment activities (i.e., net of the level of effort already required by existing legislation), and reflecting recent per-case costs and the number of recoupment cases anticipated.

For the Food Stamp Program, the principal source of increased administrative costs would be for the following new functions required for State and local agencies:

- collecting sufficient income and household expenditure information at certification to apportion food stamp benefits each month among individual household members, tax units within households, or primary household supporters, depending on the allocation plan selected,
- maintaining a cumulative record of food stamp benefits received by individual, tax unit, or household supporter,
- preparing and sending out year-end reports (like W-2 forms) showing the total annual food stamp benefits allocated to every individual, tax unit, or household supporter on the program at any time during the year.

In order to carry out these functions, the data processing, storage, and retrieval capabilities of food stamp offices would have to be greatly expanded. Computer programs and office procedures would have to be revamped, and case filing systems would have to be completely reorganized so that data accumulated month by month would be readily usable on a case by case basis at the year's end. In addition, certification interviews would be longer and take more staff time, thereby also requiring the hiring of some additional certification personnel.

For the Internal Revenue Service, the principal sources of increased costs would be revisions of the basic 1040 and 1040A tax forms, additional auditing, development and monitoring of deferral plans, and collection and enforcement activities.

The revisions to the basic 1040 and 1040A tax forms would depend on the final design of the plan, but at a minimum would include adding two or more lines to the 1040 and requiring many filers to switch from the short 1040A to the longer 1040. One way or another, all tax returns would become longer, even those not subject to recoupment. This would substantially increase the amount of information that Internal Revenue Service computers must process, store, and check for errors.

CHARACTERISTICS OF HOUSEHOLDS SUBJECT TO RECOUPMENT

Approximately five percent of all households that ever receive food stamps during a year would be subject to recoupment. In 1980, that is expected

to be about 425,000 households. Recoupment households would receive two percent of the total benefits paid out over an entire year.

The data indicate that the "average" recoupment household would have the following distinctive features:

- it would be either a two-parent family of four or a single person,
- earnings would be the primary source of income,
- the primary earner would be a male, between ages 18 and 44, who is employed for at least six months but unemployed for at least one month during the year,
- the household would participate in the Food Stamp Program fewer than three months in the year,
- its gross annual income would be between 2.0 and 2.25 times the poverty line (i.e., in 1979 terms, between $14,300 and $16,087 for a family of four and $7,340 to $8,257 for a single person),
- its recoupment liability would be less than $200.

In general, recoupment households would be distinctively different as a group from other food stamp participants. They would be in their prime earning years by and large, with higher earnings and fewer spells of unemployment than their non-recoupable counterparts. Almost by definition, they would have much higher incomes and hence receive much lower monthly benefits. And they would include almost none of the programs' elderly and Supplemental Security Income recipients, and relatively few of its AFDC families. Only with respect to their region of residence would they be broadly similar to the rest of the food stamp caseload.

The fact that recoupment households would be among the most employable and highest earning food stamp participants suggests that many of them may be relatively well established in the labor market. In addition, the fact that the majority of recoupment households receive food stamps for fewer than three months of the year (and 80 percent are participants for fewer than six months) indicates that they are not chronic dependents on public assistance. All this is hardly surprising, but underscores that recoupment mostly would affect working households who (1) have annual incomes below the national average for their household size, but above the lowest quartile, and (2) use food stamps for comparatively short periods.

The Food Stamp Program covers certain categories of households who are often not covered by other public assistance programs - childless couples, single persons and intact families with children. It is precisely these types of families that would be the target of recoupment.

The data indicate that most recoupment households would be only slightly above the recoupment threshold (twice the poverty line), and have relatively small recoupment liabilities (e.g., under $200).

One of the reasons for this concentration just above the threshold is that the number of households participating in the Food Stamp Program drops off very quickly at higher income levels. Also, as has been noted,

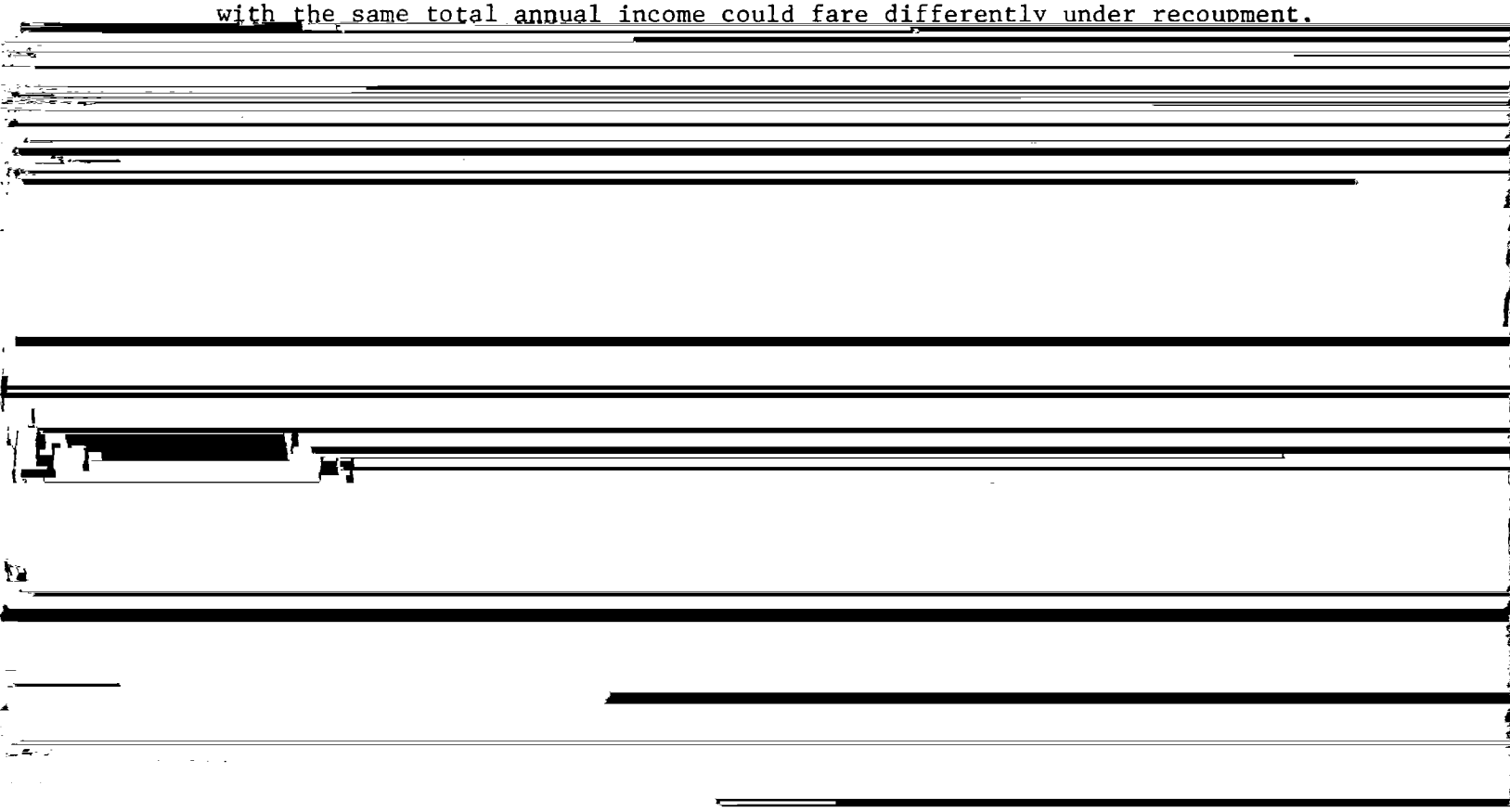
the 1977 Act eliminated many of these households by tightening eligibility requirements and effectively setting a ceiling on gross income. As a result, the drop-off in the number of households with annual incomes above twice the poverty line is even more pronounced now than before.

EQUITY AND INCENTIVE ISSUES

Recoupment would alter various incentive pressures on low income households and affect program equity. The principal issues in this regard are as follows.

Consequences of Differing Definitions of Income

The Food Stamp Program uses a more inclusive definition of income than the income tax system. In the Food Stamp Program, unemployment compensation, social security and welfare are counted in benefit calculations, but in the tax system these sources are nontaxable. As a result, two households with the same total annual income could fare differently under recoupment.



be at a disadvantage relative to those with mostly transfer income. This conceivably could have the effect of discouraging some households from

> Households A and B each contain five members; and the relevant household recoupment threshold is $16,620. At first glance, household A, with an annual income of $11,000, should not be subject to recoupment whereas household B with an annual income of $18,000 should. However, household A contains two tax units: a single unrelated individual with $8,000 in earnings and a four-person tax unit with $3,000 in transfer income. Since the single filer's income exceeds twice the poverty line for an individual, he or she would be subject to recoupment. Thus, after all, household A is recoupable.
>
> Household B also contains one four-person and another one-person tax unit. However, the single filer has earnings of $7,200 and the four-person tax unit has earnings of $10,800. Both tax units have incomes below twice the poverty line for one and four persons, respectively. As a consequence, no one in household B would be subject to recoupment, contrary to initial appearances.

From the standpoint of current food stamp law, household A should be entitled to keep all the benefits it receives, but household B should be subject to recoupment. However, from the Internal Revenue Service's perspective, it should be the reverse: household A should repay some benefits and household B should retain everything.

As a result of this noncoincidence of definitions, one of every ten recoupment households is actually legally entitled to food stamp benefits throughout all 12 months of the year, yet would have to pay some or all of its benefits back simply because it is comprised of two or more tax units. Household A (above) is an example of this situation. Since these households, who are subject to recoupment because of the discrepancy between the food stamp household unit and the IRS filing units, can

participate in the Food Stamp Program all twelve months, their recoupment liabilities are very large. In fact, these households would owe over a quarter of all recoupment liabilities, often in range of $300 to $800 per household annually.

Effects on Work Effort

Because recoupment would be a form of tax on earnings, it could create a work disincentive. In certain circumstances, employable food stamp recipients could find it in their interest to limit their earnings by constraining the time they spend working or by not looking for or accepting new jobs. The source of this disincentive is the Jeffords plan's implicit 100 percent tax rate on income above the recoupment threshold. The 100 percent tax rate means that when a household's income reached or exceeded the threshold, any additional earnings would be completely offset by increased recoupment, dollar for dollar. The workers, and the household, would earn more, but also owe more to the Internal Revenue Service, and in the end wind up no better off than without the additional work effort. Only when the household's income had risen enough so that all of its food stamp benefits had been recouped by the IRS would further earnings not be entirely taxed away.

Furthermore, a household facing a recoupment tax rate of 100 percent would have an overall tax rate of well over 100 percent, when all other adjustments to earnings are included. Federal, State and local income taxes and FICA deductions would increase the household's overall tax rate to more than 120 percent. This means that, over a range of income,

the household would actually lose $1.20 or more for each additional dollar earned. Benefit reductions in food stamps and other public assistance (AFDC, SSI, or general assistance) would raise the overall rate even higher. In the end, the household could be worse off working than not working, as the following example demonstrates:

> A household consisting of a couple and their two children has one earner, the male. Through August his earnings are almost twice the poverty line. In August he loses his job and in September he begins receiving unemployment compensation ($300 per month) and food stamps ($146 month).
>
> In early November he is offered a full-time job at $3.50 per hour. If he takes the job, the worker will earn $616 gross per month. Income and payroll taxes will take $123 and $37 per month, respectively, leaving him with $456 to take home. He will lose his unemployment compensation and his food stamps will be reduced to $45 per month, so he will have a net monthly income of only $55 higher than before. In addition, if he takes the job his annual adjusted gross income will be high enough to trigger recoupment of all food stamp benefits received during the year, an amount equal to $382. By taking the job for the last two months of the calendar year, then, his family will end up with $272 less to live on than if he remains unemployed. It thus benefits him financially to wait until January to begin employment.

A similar result could occur for other types of households, such as a household with a fully employed primary earner and a secondary earner on the margin between working and not working. This may be particularly true of secondary workers considering jobs in November or December, when numerous temporary jobs become available. Taking such a job could reduce actual household income. Under the 1977 Act's work registration provisions, a recipient is in certain circumstances required, as a condition for being

entitled to food stamps, to accept a job located by the state's employment service. However, recipients still have an unconstrained choice regarding jobs located by other means, which are likely to remain the majority of jobs they consider.

To the extent that recoupment households do limit their work effort, their recoupment liabilities and hence the net savings for taxpayers would decrease somewhat from the estimates discussed above. To reduce this disincentive, the Jeffords plan conceivably could be altered to reduce the recoupment tax rate to less than 100 percent. This need not eliminate most of the savings from recovery of benefits, according to the present analysis. For instance, cutting the rate to 50 or 25 percent reduces total liabilities subject to recoupment by 7 and 16 percent respectively.

ADMINISTRATIVE ISSUES

As noted above, major changes in State and local food stamp offices' operating procedures, filing systems, and computer programs would be required to accommodate recoupment. In addition, there would be the following other administrative issues.

Year-End Deadlines

In order for the Internal Revenue Service to carry out its responsibilities in synchronization with the rest of the tax filing process, food stamp agencies would have to send year-end report (like W-2 forms) to recipients and the IRS by no later than the end of January. This would be

difficult in many instances because the extensive work involved in preparing the reports would have to be completed in a short period which is also the time of year when casework activity is usually at its peak.

Furthermore, there could also be a serious reconciliation problem. The year-end reports would need to be based on the value of the food stamps actually issued to households, not just on the amount they are found to be entitled to. Their Authorization-to-Participate records would thus have to be reconciled with stamp issuance data before the reports could be prepared. States generally reconcile monthly issuance data 45 days after the close of the month. While some States may be able to do more this quickly, reconciliation for December could not be completed in many States much before February 15. Yet a final accounting would be needed for preparation of the year-end report by early or mid-January. With these timeframes, the deadline for the reports could not be met unless December and in a few cases part of November were omitted.

In some cases, recipients may already have filed their tax returns before receiving their late-arriving food stamp W-2 forms. No benefits could be recovered from these recipients unless they voluntarily send in corrected returns or the Internal Revenue Service undertakes special collection efforts. The magnitude of the benefits that would not be recovered on this account is difficult to predict and hence has not been included in the cost estimates above, but conceivably could be considerable.

Allocation Schemes

As has been discussed, the fact that the Food Stamp Program and the income tax system use different units (the household vs. the tax filing unit) would mean that some allocation scheme is needed to apportion a household's benefits among its members. In addition to other consequences already mentioned, the need for and nature of the allocation scheme would have important administrative implications. Four alternative schemes were analyzed, each with its own implications.

The original Jeffords plan specifies a scheme* that would require collection of detailed data on each household's annual expenditures and the annual contributions of each member to cover those expenses. Because the data would have to cover the entire calendar year and would be too complex to obtain by mail or telephone, local food stamp offices would have to conduct year-end, in-person interviews with all persons who were in households that ever received food stamps during the year. This would include persons no longer members of participating households and households no longer participating at the time the interviews must be held. The entire effort would be the equivalent of a major multi-month Census survey that would have to be completed in approximately two weeks in order to meet deadlines for sending out the year-end W-2 type forms.

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* Liability for the full amount of food stamps received by a household is assigned to the individual (or married couple) in the household who provided at least 80 percent of the cost of maintaining that household during the calendar year. If no individual or couple provided a full 80 percent, the liability would be pro-rated among the household's members according to their relative annual contribution to the cost of maintaining the household.

Since such an undertaking would be highly unworkable, three alternative schemes were devised and evaluated. One scheme would be identical to the original Jeffords formula in all respects except that the allocation of benefits would be determined for each certification period rather than the year as a whole, thus obviating the need for a year-end survey. This "modified Jeffords allocation scheme" was used for the cost estimates presented above. Although more feasible than the original formula, the modified scheme would still entail major new efforts to collect and verify extensive data that is not currently needed for eligibility determinations, and would add considerably to the complexity of the certification process. Administrative procedures somewhat simplified by the 1977 Act would become significantly more complex than they had been before the 1977 Act.

A third possible scheme would allocate benefits to tax units within a household in proportion to the number of individuals within each tax unit.* This "allocation by tax unit" scheme would involve far less data collection than the preceding two schemes, but would require food stamp caseworkers to predict the tax unit composition of households far in advance of filing time. Caseworkers would have to become skilled interpreters of tax code regulations. Furthermore, the predicted tax unit composition of a household might not match actual filing patterns in many cases where changes occur in households over the year. There would be no way to correct for all these changes without the same kind of extensive year-end survey necessary for the original Jeffords scheme.

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*For example, if a household contained two tax units of three and two people each, three-fifths and two-fifths of the benefits would be allocated to each unit respectively.

A fourth and final scheme would apportion benefits on a strictly per capita basis within each household. This scheme entails less data collection than the previous three schemes, but would require every household member to have a Social Security number that has been validated against Social Security Administration files.* From the IRS' perspective, a "per capita" scheme would be difficult or infeasible to administer, since the data provided by food stamp agencies would not be organized on anything resembling a tax unit basis. Also, the "per capita" scheme is the farthest from the intent of the original Jeffords plan to allocate benefits according to contribution to the household's maintenance, and might result in smaller savings from benefits recovery than the Jeffords plan's allocation scheme.

Handling Households That Move

Households that change addresses during the year would not receive notification of the food stamp benefits their members received at their first residence unless they have left a forwarding address. Some of these households would probably be untraceable.

Since households subject to recoupment receive food stamps for fewer than three months a year on average, it is possible that a noticeable fraction of them change residences during the year. How much of what they owe would never be collected is unclear (and is not reflected in the estimates), but may be important.

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*1979 legislation provides for Social Security number enumeration of all food stamp recipients. Validation would be a new requirement, involving checking the accuracy of the numbers reported by recipients. The Internal Revenue Service maintains that validation is necessary if Social Security numbers are used for tax purposes.

Impacts on Error Rates

The substantial increases required in data collection, storage, and processing would create more opportunities for error. Incorrect determination of recoupment liabilities could conceivably diminish the potential savings. States that are unable to hire additional caseworkers due to personnel ceilings could face other problems. Since recoupment will add an average of 15-25 minutes to certification interviews, the amount of time otherwise spent in the interview on exploration and verification of household circumstances could be reduced. This could increase error rates in these States. Furthermore, the States would have little incentive to administer recoupment as efficiently and effectively as possible since all benefits recovered would revert not to the States but to the Federal Government.

Extent of Caseload Covered

Although only a small portion of the food stamp caseload would be subject to recoupment, all participating households would have to be individually checked at the year's end to determine whether they are recoupable or not. Therefore, all the information needed for determining recoupment liabilities would have to be collected and filed on the entire caseload.

As an alternative, it might be thought preferable simply to exclude all households consisting solely of AFDC or SSI recipients, on the grounds that since these households are unlikely to be recoupable there is no point to collecting all the necessary data on them. This, however, would lead to certain inequities for households that move on or off AFDC or SSI

during the year. A household that went off AFDC or SSI during the year could not later be made recoupable that year, since the necessary information would not have been collected. This household would remain exempt while another household that initially was not on AFDC or SSI, but later came on, could be recoupable. Although the two households might have received AFDC or SSI for the same number of months and otherwise be identical, they would be treated differently.

Timing of Implementation

To implement the Jeffords plan, a period of start-up would be required involving three principal activities: writing new Federal regulations, redesigning and reprogramming States' computer systems, and changing local office recordkeeping and data collection procedures.

New Federal regulations would need to be developed jointly by two agencies, the Food and Nutrition Service and the Internal Revenue Service. This would take eight months at a minimum, allowing 60 days for developing and drafting proposed regulations, 30 days for clearance and publication, a standard 60-day comment period, and 90 days for comment analysis, preparation, clearance and publication of final regulations. This timeframe would be exceptionally quick for development of join regulations between two Departments to establish a new system of this degree of administrative intricacy.

Redesigning and reprogramming computer software systems (and augmenting hardware facilities where necessary) can begin only after the Federal regulations have been completed, since until then the States would not know

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CHAPTER 1

INTRODUCTION

Recoupment is a partly new, partly old idea. The specific recoupment proposals examined in this report are, in a narrow sense, relatively new, having first received close public scrutiny at the time of deliberations on the Food Stamp Act of 1977. In a broader sense, the underlying policy issues and problems raised by the proposals are as old as public assistance programs themseleves.

This introductory chapter reviews the legislative history of the proposal, discusses the rationale for recoupment, and briefly outlines some of the key policy questions. Against that background, Chapter 2 then describes the details of the proposal.

1.1 LEGISLATIVE HISTORY

When the proposed Food Stamp Act of 1977 first came up for consideration by Congress, it did not contain a recoupment provision, nor did the program itself at that time have any such provision. During the House Agriculture Committee's debate of the bill, Representative James Jeffords from Vermont offered an amendment with a recoupment plan involving, among other distinctive features, a link with the Internal Revenue Service. As the Committee Report later noted, the Jeffords Plan

> ...would have required food stamp recipients whose adjusted (tax) gross income exceeded twice the poverty line in a calendar year to pay back in cash some, if not all, of the food stamp benefits they received in that year. They would have to report their year's cumulation of coupon allotments in a special box on their tax form and reimburse the Treasury for that full amount by which

> their adjusted (tax) gross income exceeded twice the poverty line for a household of their size. In many instances, the sum they owed would simply be subtracted from their tax return...* Committee Report, p. 365

For others, the recoupment amounts would have to be paid in cash. In order to mitigate potential hardship, any household still receiving food stamps when it filed its tax return could defer the payment of any recoupment liability in excess of its tax refund. Also, the Department of Agriculture in consultation with the Treasury Department could waive any collection that would result in undue hardship.

The Jeffords plan raised numerous questions that could not be completely answered from the data then available. How much money conceivably could be recouped? How much in fact could be collected? How many households would be subject to recoupment, what would be their general characteristics, and how, if at all, would they differ from other food stamp participants? Would recoupment be difficult and costly to administer? Would the link with IRS be workable? To what extent would the filing of income tax returns be complicated not only for food stamp households but also for more than 90 million other tax filers nationwide? Would the savings in recouped benefits outweigh the administrative costs and problems? Would the prospect of recoupment create major work disincentives?

In the end, the House Agriculture Committee rejected the amendment on a recorded vote of 21 to 23. A similar amendment introduced on the House floor was defeated by 149 to 262. The Senate took no action on recoupment.

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*The text of the Amendment is included in Appendix D to this report.

The House did agree, however, to mandate USDA to perform a study "of the feasibility, alternative methods of implementation, and the effects of a program to recover food stamp benefits from members of eligible households in which the adjusted gross income...may exceed twice the income poverty guidelines..." (Sec. 17 (d) of the 1977 Food Stamp Act). The conference committee retained the study provision in the final bill enacted on September 29, 1977. This report presents the study's findings.

1.2 THE RATIONALE FOR RECOUPMENT

Underlying the 1977 deliberations on recoupment was a general concern that food stamps should be available only to those who truly need them, and only to the extent of the actual need. It was noted that certain households in special circumstances could legally receive food stamps

[redacted]

monthly income limits used for eligibility determination.

Under the old program rules of the 1964 Act in existence at the time, these special cases could arise for either (or both) of two primary reasons. First, a household might qualify for large deductions reducing a comparatively high gross income in a given month to a much lower net

When the Jeffords Amendment was introduced, many thought that recoupment was an answer to both these problems. This was true as long as the old program rules were retained. However, the 1977 Act as finally enacted completely revamped the types and amounts of deductions allowable, and greatly limited the extent to which gross income could exceed net income. Households that would have been subject to recoupment under the Jeffords plan because they qualified for very large deductions were made ineligible for food stamps under the new Act. In short, the first rationale for recoupment--large discrepancies between gross and net income within a given month--was effectively eliminated by other tightening provisions of the new Act.

The change in the deductions procedure mainly involved switching from itemization to the use of uniform standards. Under the 1964 Act, itemized deductions were figured for each household individually, reflecting its actual medical bills, withholding tax, FICA, work related child care expenses, and shelter expenses (in excess of 30 percent of income net of all other deductions). There was no limit, explicit or implicit, on the total deductions permissible, and hence no limit on how high gross income could be. The 1977 Act set a limit on child care and shelter deductions* and replaced the rest with a standard deduction and a uniform work expense allowance. The standard deduction, recently raised to $70 per household per month because of inflation, covers miscellaneous needs formerly treated separately. The work expense allowance reduces earnings by 20 percent to allow for taxes, FICA, union dues, etc.

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*The limit was originally set at $75 per household per month, but is now $90 due to adjustments for inflation. Both deductions singly, and their sum, must remain within the limit. Also, the 1977 Act changed the shelter expensededuction to count shelter costs in excess of 50 percent, rather than 30 percent, of net income.

In effect, these changes establish a ceiling on gross income. For a family of four, for example, the maximum standard and itemized deductions permit eligibility of households with a maximum gross monthly income of $945, or $11,340 annually.* For other household sizes, the ceiling is different, but in all cases it is well below twice the poverty line. Since households are recoupable under the Jeffords plan only if their gross (annual) income exceeds twice the poverty line, it follows that no household eligible for benefits under the 1977 Act can also be subject to recoupment solely due to the difference between gross and net income within a given month.

The second possible reason for recoupment--variation in income over the course of a year--was not eliminated by the program changes incorporated in the 1977 Act. It was relevant under the 1964 Act's rules and has remained no less so since. The basic issue involved was succinctly set forth during the House Agriculture Committee's deliberations by means of the following example:

> Household A earns their income at the rate of $1,000 per month for 12 months. They are not eligible for food stamps, nor did they have taxes overwithheld by their employer. Household B receives $1,200 for 10 months and is eligible to receive maximum food stamp benefits for the other two months. Household B is also eligible for a tax refund of $359 because of overwithholding. With a recoupment system, Household B's tax refund would be reduced by $340--equal to their two month's coupon allotment value--reinstating equality with Household A. Committee Report, p. 365.

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* $945 - [$70 (Standard) + $189 (Work-related expenses) + $90 (maximum shelter cost and/or child care deduction] = $596 and qualifies the household for a $26 food stamp benefit. Note that households containing elderly members can have higher gross monthly incomes because of unlimited shelter and medical deductions.

The figures in this example are hypothetical. Nevertheless, even when numbers reflecting the actual provisions of the 1977 Act are used, the same issue arises.

> Households C, D and E (see Table 1-1) each have four members and an annual gross income of $15,000. Since the poverty line for households of this size is $7,150 these households all are at an income more than twice the poverty line. Household C earns its income regularly during the year and is never eligible for food stamps. Earned income in households D and E varies over the year and, as a consequence, these households are eligible for food stamps in some months.
>
> The principal earner in household D has a two month unemployment spell and collects $360 in Unemployment Insurance benefits for each month of unemployment. In those months, the household's net monthly income under the 1977 Act is $200 and the household receives $144 of food stamp benefits. The net monthly income is derived as follows: $360 minus the $70 standard deduction is $290 the household's shelter costs exceed one-half this amount and the household qualifies for the full $90 shelter cost deduction; and so net monthly income is $200.
>
> The principal earner in Household E earns a gross monthly income of $900 per month throughout the year. In the fourth month of the year, the spouse of the principal earner takes a job and has gross monthly earnings of $525. The combined gross earnings of $1,425 render Household E ineligible for food stamps for 8 months of the year. However, in the first four months of the year the household is eligible for $36 in food stamps each month, since it has a net monthly income of $560. The net income is derived by substracting the following deductions: $70 (standard deduction), $180 (work related expenses or 20% gross monthly earnings) and $90 (shelter cost deduction).

Recoupment would affect households with varying incomes, like B, D, and E, but not households with constant incomes. In addition, to be subject to recoupment, a household's income must not only vary over the course of a year but also be relatively high for the year as a whole: under the Jeffords plan, it must be more than twice the poverty line. As a result, recoupment would concern a comparatively small and atypical segment of the food stamp recipient population.

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Table 1-1

Month	Household C Gross Monthly Income	Household C FS allotment	Household D Gross Monthly Income	Household D FS allotment	Household E Gross Monthly Income	Household E FS allotment
Jan.	1250	0	1500	0	900	36
Feb.	1250	0	1500	0	900	36
Mar.	1250	0	1500	0	900	36
Apr.	1250	0	1500	0	900	36
May	1250	0	360	144	1425	0
June	1250	0	360	144	1425	0
July	1250	0	1500	0	1425	0
Aug.	1250	0	1500	0	1425	0
Sept.	1250	0	1500	0	1425	0
Oct.	1250	0	1500	0	1425	0
Nov.	1250	0	1500	0	1425	0
Dec.	1250	0	1500	0	1425	0
Annual Adjusted Gross Income (AGI)	15,000		15,000		15,000	
Amount by which annual AGI exceeds $14,300 (twice the poverty line)*	700		700		700	
Annual FS Benefit	0		288		144	

*Poverty line as of July 1, 1979

Proponents of recoupment generally note that although these households may have been in need of aid at the time they received it, their overall annual circumstances enable them to repay some or all of it later. There is thus a presumption that such households should continue to be entitled to assistance during their period of need, but that they also should "settle accounts" annually. As Representative Jeffords put it,

> The proposal acknowledges that a household with a relatively high income may have a temporary need. For such families, Food Stamp benefits would simply be considered as an interest-free loan, to be paid back in a painless manner through deduction from the family's income tax refund, or on an interest free, penalty free schedule, after the household is off food stamps. Committee Report, p. 837

The ultimate aim is to correct some of the perceived longer term inequity problems in the program while possibly also saving taxpayers' dollars. However, this simple objective involves many complex issues, as the next section and following chapters discuss.

1.3 UNDERLYING ISSUES AND PROBLEMS

Recoupment would have the effect of reducing the benefits that certain households receive in the long run, after annual repayments have been settled. Since most of these households would be near the upper end of the income distribution of food stamp participants, the result would be to concentrate a larger share of benefits on poorer households. This raises the issue of how recoupment would affect the target efficiency of the program.

A public assistance program is target efficient if it can reach all those deemed truly in need (the target population) and at the same time exclude all those not intended to be aided. Few disagree that target efficiency is desirable, but there can be differing views of what the target population is. For those who feel the target population of the Food Stamp

Program should not include households with gross annual incomes more than twice the poverty line, recoupment would be a move toward improving the program's target efficiency. For those who believe such households ought to be eligible for temporary assistance, recoupment would recover benefits rather than remove deserving participants.

Other fundamental goals of the Food Stamp Program besides the degree of target efficiency would also be affected by recoupment. These programmatic features are discussed in subsequent chapters and can be briefly summarized as follows:

Work Incentives. To what extent do those who are able to work find it in their interest to do so? In particular, for each dollar they earn, how much are their food stamp benefits reduced, and thus how is their net overall financial situation altered?

Horizontal Equity. To what extent are people in similar circumstances treated the same?

Vertical Equity. To what extent do people with greater needs always receive more benefits? This is related to, but not the same as, target efficiency.

Responsiveness. To what extent do benefits adapt quickly to reflect changes in recipients' circumstances?

Adequacy. To what extent are benefits adequate according to some standard of a minimum support level?

Administrative Feasibility. To what extent can a new policy (such as recoupment) be implemented without undue administrative burden?

Clarity and Simplicity. To what extent can programs and policies be easily understood by everyone?

These general programmatic goals frequently conflict with one another--a fact that has been a continuing source of difficulty for welfare (and food stamp) reform efforts over the years. For instance, perfect target efficiency would require that no household receive more benefits than the minimum needed to maintain it at the program standard for households of that type as defined by a set of program criteria such as household size and income. This would mean that benefits ought to be reduced one dollar for each additional dollar of income the household earns, or in other words, that the program should have a 100-percent benefit reduction rate.

However, a 100-percent benefit reduction rate provides no inducement to work. From the perspective of creating a work incentive, the benefit reduction rate should be as much lower than 100 percent as possible. A very low rate, though, would undercut yet another goal--vertical equity. When determining benefit reduction rates or any other aspect of the program, individually desirable goals are not always mutually attainable.

Much hinges on the distinction between the monthly accounting period as the basis for eligibility determination and the yearly perspective of recoupment. Perceptions of recoupment sometimes differ according to which time frame is stressed. Behind this lies a fundamental dilemma that confronts not only

food stamps but all public assistance programs. If short accounting periods--like a month--are used, longer term trends in individuals' incomes cannot easily be taken into account. On the other hand, if longer periods--like a year--are used, it is impossible to respond to sudden changes in individual circumstances that create severe short-term needs. Recoupment is one of several classes of strategies for attempting to satisfy both sets of concerns simultaneously.

Finally, an important factor in the recoupment debate is that almost nothing has been known in the past about the characteristics of the households that would be subject to recoupment. Would most of them be receiving benefits for only a few months a year or for many months? Would most of them have short spells of unemployment, serious unemployment problems or be migrant workers? Some of these questions can be answered with the data presented in this report and some cannot. Clearly, though, information of this kind may have a considerable effect on the decision that must ultimately be made.

1.4 PRESENTATION OF THE REPORT

Against this background of the trade-offs among worthy and competing program objectives, different approaches to achieving target efficiency, and the experience of recent reform efforts, this report will examine the proposal for recoupment of food stamp benefits from households with relatively high annual incomes.

Chapter 2 describes in greater detail the recoupment plan proposed to the House of Representatives, and it analyzes the general strengths and weaknesses of that plan. In addition, it will discuss alternative specifications

and methods of implementation that might mitigate some of the problems with proposed recoupment schemes.

Chapter 3 presents estimates of the amounts that might be recouped through the proposed plan and through various alternative recoupment plans. The focus of this chapter is on the pecuniary benefits of recoupment, the amounts collected from recipients or offset from their tax returns.

Chapter 4 looks at the food stamp recipients (and potential recipients) affected by recoupment. It describes recoupment households and the distribution of recoupment amounts across households.

Chapter 5 presents the various equity and incentive issues surrounding recoupment: the equity of benefit allocation plans, possible work disincentives, issues of tax compliance and potential deterrence to participation and fraud.

Chapter 6 discusses the effects of recoupment on State and local welfare agencies and presents some preliminary estimates of the feasibility and costs of performing the tasks required of these agencies by a recoupment scheme.

Chapter 7 addresses the feasibility of implementing recoupment through the Internal Revenue Service. It discusses the administrative procedures, and the consequent costs and effort, necessary to implement an annual recoupment scheme through the personal income tax system.

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CHAPTER 2

WHAT RECOUPMENT IS AND HOW IT WOULD WORK

This chapter elaborates on the brief description of the Jeffords plan in the previous chapter, discusses some possible variations on the original plan, and examines several underlying features shared by all recoupment plans.

2.1 INTRODUCTION

Recoupment is a way of allowing a program such as food stamps, which is based on a short (i.e., monthly accounting period), to take into consideration applicants' income streams over a longer (i.e., annual) horizon. In the design of any recoupment plan, three parameters are critical: the allocation scheme, the threshold income level, and the recoupment rate.

- The allocation scheme is the method by which benefits are attributed to members of the household for the purpose of recoupment. It determines which household members, and therefore how many dollars, are subject to recoupment as administered through the federal tax system.
- The threshold income level is the income at which recipients become liable for repayment of some or all of the benefits they have received.
- The recoupment rate is the rate at which the benefit amount is recouped for each dollar of income over the threshold. For example, if the recoupment rate is 100 percent, then a household with a gross annual income that is $200 higher than the threshold will pay back $1 in benefits for each dollar of income over the threshold up to the full amount of benefits or the full $200 whichever is less.

A fourth element of a recoupment plan, the definition of income, is also important.

- The definition of income subject to recoupment determines which sources of income are considered and which are excluded.

Together, these basic parameters define the target population and determine the effects that recoupment would have on cost savings, on recipients, and on administrative burden. The assignment of administrative responsibilities are also important, not only because administrative costs affect the net savings from recoupment, but also because the administrative arrangements affect the definitions of filing units' income.

2.2 FURTHER DETAILS OF THE JEFFORDS PLAN

The Jeffords plan would recover benefits from recipient households with annual incomes over twice the poverty line, that is, twice the program's annualized net eligibility limits. Food stamp benefits received during the year would be reported with other income on tax forms, and recipients would have to reimburse the Treasury of the amount by which their adjusted gross income exceeded twice the poverty line, up to the full amount of benefits received. Thus, in the Jeffords plan the threshold income level is twice the poverty line and the recoupment rate is 100 percent.

Under this plan, monthly benefits would continue to be calculated on the basis of anticipated monthly income; however, for those recipients who have

relatively high incomes over the course of the year, the benefits would become an interest-free loan to help them during periods of temporarily low income. State and local welfare agencies would maintain a record of the monthly benefits received by each household during the year.* In January of every year they would prepare and send out year-end reports like W-2 forms (hence referred to hereafter as "W-X forms") bearing the amount of the annual allotment, so it can be reported on and submitted with Federal tax returns. They would also provide the same information to the Internal Revenue Service on computer tapes.

Because of the significant differences between the food stamp unit and income tax filing unit, some provision would have to be made for apportioning benefits among household members. Under the Jeffords plan, liability for the full amount of food stamps received by a household would be assigned to the individual (or married couple) in the household who provided at least 80 percent of the cost of maintaining that household during the calendar year. If no individual or couple provided a full 80 percent of such costs, the liability would be prorated among members of the food stamp household according to their relative contributions to the cost of maintaining the household. Thus, in the Jeffords plan the allocation scheme is a pro-rata procedure figured on an annual basis. The procedure entails having some food stamp households divide their benefits, and their potential liability for recoupment, among two or more tax units.

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*In States where authorization to participate (ATP) cards are issued, welfare agencies would reconcile these issuance amounts with the cards that were redeemed for food stamp coupons and correct records to reflect actual benefits received.

The Jeffords plan further proposes that the collection of recoupment liabilities would be administered by the Internal Revenue Service, which already collects annual income information. Each tax unit that receives benefits during the year would calculate its recoupment liability either on the Form 1040 (or 1040A) or on a special form to accompany the 1040. The taxpayer would look up its recoupment income threshold, equal to twice the poverty line for the appropriate tax unit size, on a table included with the tax filing instructions. If the tax unit's adjusted gross income (AGI) as reported on the tax form were less than the relevant threshold, there would be no recoupment liability. If its adjusted gross income were higher than the threshold, the tax unit would have to pay back some or all of its benefits. The resulting recoupment liability would be equal to the excess of AGI over the threshold, or the full amount of food stamp benefits received during the year, whichever were less. This liability would be subtracted from any tax refund otherwise due the taxpayer. Any excess of the recoupment liability over a refund would be payable to the Treasury. However, payment of this balance would be deferred if the taxpayer were a member of a household receiving food stamps "at the time prescribed by law for the payment of Federal income tax." At the point when the household is no longer receiving benefits, its liability would be due. The Internal Revenue Service could arrange a schedule of payments for these liable units when appropriate.

The design of the proposed plan attempts to concentrate recoupment efforts on households with the highest incomes and minimize the necessity for additional bureaucracy. It succeeds in certain aspects of the program,

but nevertheless would still require a substantial increase in Food Stamp Program and IRS administrative effort, and it would raise many of the concerns inherent to any recoupment system as well.

The Jeffords plan would not affect program responsiveness. Since the monthly accounting period would still be the basis for eligibility to receive benefits, the program would be no less responsive to changes in low-income households' situations (e.g., sudden loss of income) if the Jeffords plan were adopted than otherwise. In this respect, the recoupment is usually described as preferable to other conceivable approaches to accounting for longer term (e.g., annual) income information into a monthly-based program, since most other approaches would reduce responsiveness.

How the plan would affect the program's target efficiency is partly a matter of opinion. In so far as recovering benefits from recipients with relatively higher annual income is regarded as targetting the program more precisely on the groups the program is meant to serve, then the Jeffords plan would improve the program's target efficiency. However, this conclusion depends on one's view of what the target population should be and over what time frame the population's income should be measured. Those who hold that recoupment households should be entitled to keep the benefits they legally receive in any month will conclude that the Jeffords plan would not enhance target efficiency.

Recoupment would improve horizontal equity by treating households that have the same annual incomes more equally. However, there are limits to this improvement for all households would not be treated exactly the same. Because of the exclusion of transfer income from the IRS determination of adjusted gross income, there would still be an advantage to higher income households that receive unemployment compensation or welfare. And because the recoupment threshold (at twice the annual poverty level) would be higher than the Food Stamp Program's monthly eligibility limits, there would still be some advantage to uneven income flows during the year. Nevertheless, the recoupment plan would mitigate inequities.

On the other hand, targetting on the households with the highest incomes and using the mechanism of the Federal income tax does not eliminate all the problems and concerns of recoupment. As with any recoupment plan, concerns about hardship, inequity and work incentives remain. Moreover, using the tax system may create new problems. The proposed use of tax definitions of filing units and income poses significant administrative obstacles and additional equity concerns. It is to some of these issues that the chapter now turns.

2.3 ALTERNATIVE ALLOCATION SCHEMES

As has been discussed, the allocation scheme used to apportion a household's benefits among its members in a critical design element of any recoupment policy. The definition of a filing unit, and consequently the method by which records are kept and calculations performed, differs between the two agencies proposed to administer recoupment: food stamp agencies and the IRS. For the Food Stamp Program, all persons living together and customarily purchasing food and preparing meals together for home consumption must apply together for food stamps. Income tax filing units, however, normally consist only of related individuals, and even related persons may file separately. The income tax filing unit is the individual; the food stamp filing unit is the household, and it may contain several tax units. Therefore, the benefits received by any household must be apportioned to its component tax units -- in other words households must somehow be translated into tax units -- if recoupment is to be effected through the tax system.

During the present analysis, it was found that the allocation scheme proposed in the Jeffords plan would have several serious administrative problems. Rather than simply stop there, an effort was made to develop and examine alternative allocation schemes that would preserve the intent of the plan as much as possible, but would be more feasible administratively. Three alternatives were eventually selected. This section outlines them briefly, leaving further analysis of them for subsequent chapters.

The alternative schemes were devised after consideration of several potential criteria for evaluating a scheme's attributes: the amount of information required to perform the allocation, the degree of accuracy in performing the calculation itself, the accuracy of the data collected and the probability of verifying those data, the equity of the allocation plan, the extent to which

the allocation maximizes or minimizes the amount of benefits subject to recoupment, and administrative feasibility and cost. Just as there are trade-offs in balancing various program goals such as target efficiency and responsiveness, there are trade-offs to be made in the design of an allocation scheme.*

The efficient performance of a task may be measured by the degree of error associated with the result of the task, and the possibility of error rises directly with the complexity of the task. Generally, errors arise from two sources: when information is inaccurately reported and when agencies make calculation errors. These two types of error increase with the number of variables (or pieces of information) and the increase probability that these variable change over time. For example, allocations based simply on household size would be relatively straightforward while allocations based on expenditures such as utilities or special consumption needs add to the size and complexity of both client and agency responsibility. Thus it is desirable to minimize the amount of information required by the allocation formulation and to use readily accessible and verifiable information. The above criteria become even more important in light of the fact that information for benefit allocation must be collected for all households that ever participate in the Food Stamp Program during the course of the year. The vast majority of food stamp households do not participate in the program in all twelve months of a calendar year and whether a household is subject to recoupment is a function of the income of the household members in those months

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*See Chapter 6 for a more detailed discussion of the administrative implications of alternative allocation schemes.

when the household does not participate. The food stamp agency does not have information about the household for those non-participating months and has no way of predicting whether a household receiving food stamps will ultimately be subject to recoupment at tax time.

These considerations have an important bearing on the design of allocation schemes. Section 2.3.2 through 2.3.4 below describe the three alternatives to the original Jeffords scheme. To set them in context, Section 2.3.1 provides additional details on the original scheme.

2.3.1 The Jeffords Allocation Scheme - Pro Rata on an Annual Basis

Recall that under this scheme, liability for the full amount of food stamps received by a household would be assigned to the individual (or married couple) in the household who provided at least 80 percent of the cost of maintaining that household during the calendar year. If no individual or couple provided a full 80 percent of such costs, the liability would be prorated among members of the food stamp household according to their relative annual contributions to the cost of maintaining the household.

This procedure would require collection of detailed financial data from food stamp households, including each household's total annual expenditures and the annual contributions of each member to cover those expenses. Neither annual income nor expense data nor individual financial data are now collected by the welfare agencies, The IRS, on the other hand, only collects annual income of each tax unit. The kinds of intrafamilial data that are needed for

recoupment are not only difficult to collect; they are also difficult to monitor and verify without substantial expenditures on the part of the agency collecting the information.

The determination of annual contributions to household maintenance necessitates collection of income data as well as expenditure data. In order to collect this information on a retrospective calendar year basis, a survey would have to be conducted of all persons who were in households that ever received food stamp benefits during the year. Bill stubs and records would be needed for verification as well as a supplement to memory as members of a household attempt to reconstruct their "household maintenance account books" for the year.

If the composition of the household changed during the year--for example, if a son married and left the household--the data collection would become more difficult. Any composition change would create the dilemma of determining which members constituted the household for the year; i.e. whose income and expenditures to include. It may be problematic to locate families that have moved; certainly it would be costly and time-consuming, and in some cases impossible. Furthermore, the detailed and confidential nature of the survey would require in-person interviews--the most expensive of all data collection techniques. The survey itself would have to be conducted at the close of the calendar year and completed in a very short time frame to prepare and send out the food stamp W-X forms prior to the earliest tax filing date of January 31.

In this allocation scheme, the calculations performed by the food stamp agency are complex, but particularly so in those cases where household composition has changed or where no single member or married couple contributed 80 percent to household maintenance. As noted earlier, the complexity of the calculations and the volume of information to be used open the possibility for error in the administration of this plan. The relatively high probability of error is compounded by the speed with which data must be gathered and allocations made to meet the IRS deadline.

Indeed, as discussed more fully in Chapter 6, the problems are severe enough and expensive enough to warrant avoiding this method of allocation if at all possible.

2.3.2 Modified Jeffords Allocation Scheme--Pro Rata by Certification Period

The modified Jeffords scheme, the first of the three alternatives developed for this report, retains the basic elements of the original scheme, such as having the threshold at twice the poverty level and the recoupment rate at 100 percent. However, relative contributions to household maintenance expenses are determined for each food stamp certification period rather than for the year. It is easier for the applicants to supply this detailed information when they are at the welfare office for their certification interview, and also easier for food stamp agencies to collect and record it at these periodic intervals. Each allocation is frozen for each certification period, and totalled at the end of the year. No end-of-the year survey would be required by this plan. However, detailed information on expenditures and

income would have to be collected and verified at each certification and recertification. Unlike the original Jeffords plan, which is based on retrospective information, this allocation plan is based on a prospective estimation of contribution to maintenance. If any changes in contribution to maintenance occurred during the certification period, the recipients would be required to report the change and provide documentation before a change in allocation is performed. The period after the change would be treated as a new certification period.

Information collection on household expenditures was recently substantially reduced and simplified by the institution of standard deductions through the Food Stamp Act of 1977. It was accomplished not only to reduce the income eligibility limits, but also to ease the administrative burden of gathering all the specific, individual data as required in a personalized benefit determination. Both of the Jeffords schemes counteract the second goal by requiring substantial expansion of the information collected for the computation of the benefit allocation. All of this information would then have to be stored for several years under food stamp regulations in case the allocations made were challenged.

A slight variation of the modified Jeffords scheme based on the relative incomes (rather than contributions to maintenance) of household members is also possible. This would simplify the allocation procedure somewhat. Food stamp benefits would be deemed to each household member in proportion to his or her income as a percent of the total income of the household.

This approach would be more consistent with the original determination of benefits - which is based on total household income - and also more feasible to implement on the basis of data now collected. The allocation could be calculated and recorded for all food stamp households, and reported in separate W-X forms for each person with income during the year. This would mean a substantial increase in the income data to be stored and processed by program agents, but would avoid the need to gather expenditure information, which would make the greatest demands on computer capacity and costs. For either of the pro rata allocation schemes, the original or the modified Jeffords plan, unusual situations may arise. When the allocation is made to the individuals who financially support the household, the problem of assigning financial responsibility to minors with income must be faced.

To avoid expanding the amount of income information collected by the food stamp offices to perform the allocation, the IRS could be made responsible for this function. In order to do this, however, the IRS would essentially have to translate its tax unit information back into household data. Each tax unit would have to provide income data regarding each member of the household, whether or not that person were in the tax filing unit. This would allow the IRS to determine annual household income by cross-checking the information provided on the tax returns of all component tax units to verify consistent reporting of relative incomes, and therefore of relative recoupment liabilities. This would be a formidable task for the IRS, and one that would require extensive administrative effort and expense in an area outside of their normal operations.

2.3.3 Allocation of Tax Unit

This plan divides household benefits in proportion to the relative sizes of the component tax units. Thus if a household contained two tax units of 3 and 2 people each, three-fifths and two-fifths of the benefits would be allocated to each unit, respectively. Again, benefits are allocated at certification, the proportional division is frozen for that certification period, and liabilities from each period are added together at the end of the year. The plan involves a prospective determination of tax units. Whether households or food stamp agencies can accurately predict the composition of their tax filing units so far in advance of tax filing time is a serious issue. The best that could be done would be to use conservative assumptions in assigning tax units: the household would be divided into the maximum number of logical and feasible units according to guidelines established for the program. Once the allocation by tax unit size is made, it cannot be changed without involving extensive administrative problems.

Unfortunately, in practice, this allocation method may result in substantial leakage and avoidance of recoupment liabilities. The amount of leakage would probably be significant enough to make this allocation scheme impractical and cost ineffective. Leakages would occur if the tax units(s) identified within a household at the time of food stamp receipt were not the same tax units that filed with the IRS at tax time.

2.3.4 Per Capita Allocation

This method of apportioning benefits would require fewer pieces of information and simpler calculations than the previous three schemes and would more closely parallel current IRS procedures dealing with individual income. However, the results would be furthest from the intent of the original Jeffords plan to allocate benefits according to individual contributions to household maintenance.

For each certification period, the total benefits received by a household would be divided by the number of household members. Each individual's per capita share would be entered onto his or her file. At the end of the year, the results from all certification period would be summed, reported on a weparate W-X form for each member, and mailed to each individually. When a tax unit forms, it would file the W-X's only for those household members claimed as part of that unit. If a change in the composition of a household occurs during the year, past benefits move with each individual and current benefits are re-allocated simply according to household size.

Although simpler than the other schemes, this approach is not without problems. As Chapter 6 discusses, there would be several significant administrative issues. Chief among these is the requirement that all recipients have validated social security numbers. Legislation passed in the summer of 1979 provides for recording of social security numbers on all food stamp recipients. However, validation of social security numbers would be an additional task undertaken only for purposes of recoupment. Validation would involve checking that the number provided by the recipient is accurate in relation

to the master files of the Social Security Administration. The Internal Revenue Service maintains that validation is essential because social security numbers would have a central role in identifying recoupable benefits with the correct liable person. If a number is incorrect by even one digit, the IRS would have no way of matching that individual's W-X form with the tax return it receives. However, the added time and cost for filling out the validation forms at certification are significant.

Tax unit alterations are possible with this plan by shifting dependents among the household's tax units to minimize liability. Notwithstanding this fact, benefits allocated to dependents are unidentifiable on tax returns since the reporting of dependents' social security numbers is not required under current IRS procedures. Therefore, no matter who claims the dependents on tax returns, there is no way of checking whether dependents' W-X forms are filed with those returns, resulting in the leakage of potentially recoupable benefits.

2.4 ALTERNATIVE RECOUPMENT RATES

As Section 2.1 noted, the recoupment rate is the fraction of income above the threshold that is liable for recoupment. Just as a recoupment plan can have different allocation schemes, it can also have different recoupment rates.

The recoupment rate determines the effect of the plan on marginal tax rates, and consequently, the impact on work incentives and vertical equity. Also,

in combination with the threshold, the recoupment rate is a determinant of the recoupment liability at any particular income level, the range of income over which liabilities are phased-in, and the total amount of recovered benefits. The higher the recoupment rate, the more the recoupment plan would raise marginal tax rates, posing concerns about work incentives. On the other hand, a higher recoupment rate would result in higher collections and savings. Conversely, the lower the recoupment rate, the lower the adverse impact of the plan on incentives. But a lower rate also reduces savings and increases the range of income over which recoupment households are subject to higher marginal tax rates by extending the income range over which benefits are recovered.

Recoupment rates can be divided into three distinct classes.

- All benefits could be recouped as soon as the income of the household or filing unit exceeded the threshold. This would create a "notch" at the threshold, where a few dollars of earnings could result in a precipitous drop in total income (net of the recoupment liability).

- Benefits could be recouped at the rate of one dollar for each dollar of income in excess of the threshold. This would be a 100 percent recoupment rate, and it would cause total marginal tax rates to go substantially over 100 percent, at least 125 percent if the earner is also subject to income and payroll taxes. This means that for the entire income range over which benefits are recouped, each extra dollar of earnings will result in an absolute decline in disposable income.

- Benefits could be recouped more gradually, at a rate lower than 100 percent. Thus, the recoupment rate could be set such that an extra dollar of earnings always resulted in higher disposable income.

Exhibit 2-1 displays examples of each of these possibilities graphically, including two recoupment rates less than 100 percent--50 percent and 25 percent. The examples describe the impact of recoupment on the net income (shown on the vertical axis) of a single-tax-unit household receiving $500 in food stamp benefits annually. The household has an annual gross income (shown on horizontal axis) large enough to be subject to taxation. If the household is only barely taxable, it would appear near the origin of the chart. As its income increases, it moves up the solid line to point A, where its annual gross income reaches twice the poverty line. Below point A, it is not subject to recoupment. Its net income is less than its gross income by the amount of its income taxes and social security taxes.

When the household's gross income exceeds "2 PL" (twice the poverty line) on the horizontal axis, recoupment begins. If a "full recoupment at threshold" policy is in effect, it drops immediately from point A to point B, a decrease in its net income of $500 (the amount of food stamp benefits it received). Thus, there would be a significant "notch" effect: a small increase in gross income above twice the poverty line would lead to a substantial decrease in net income, due to recoupment. Beyond point B, if the household's gross income rises further, it moves up line BF. On BF, the relation between gross and net income depend on income taxes and social security taxes, the same as on line OA (the two lines are parallel).

Alternatively, in the case of a 100 percent recoupment rate policy such as the Jeffords plan, an increase in the household's gross income above twice the poverty line carries it along line segment AC. There is not the severe

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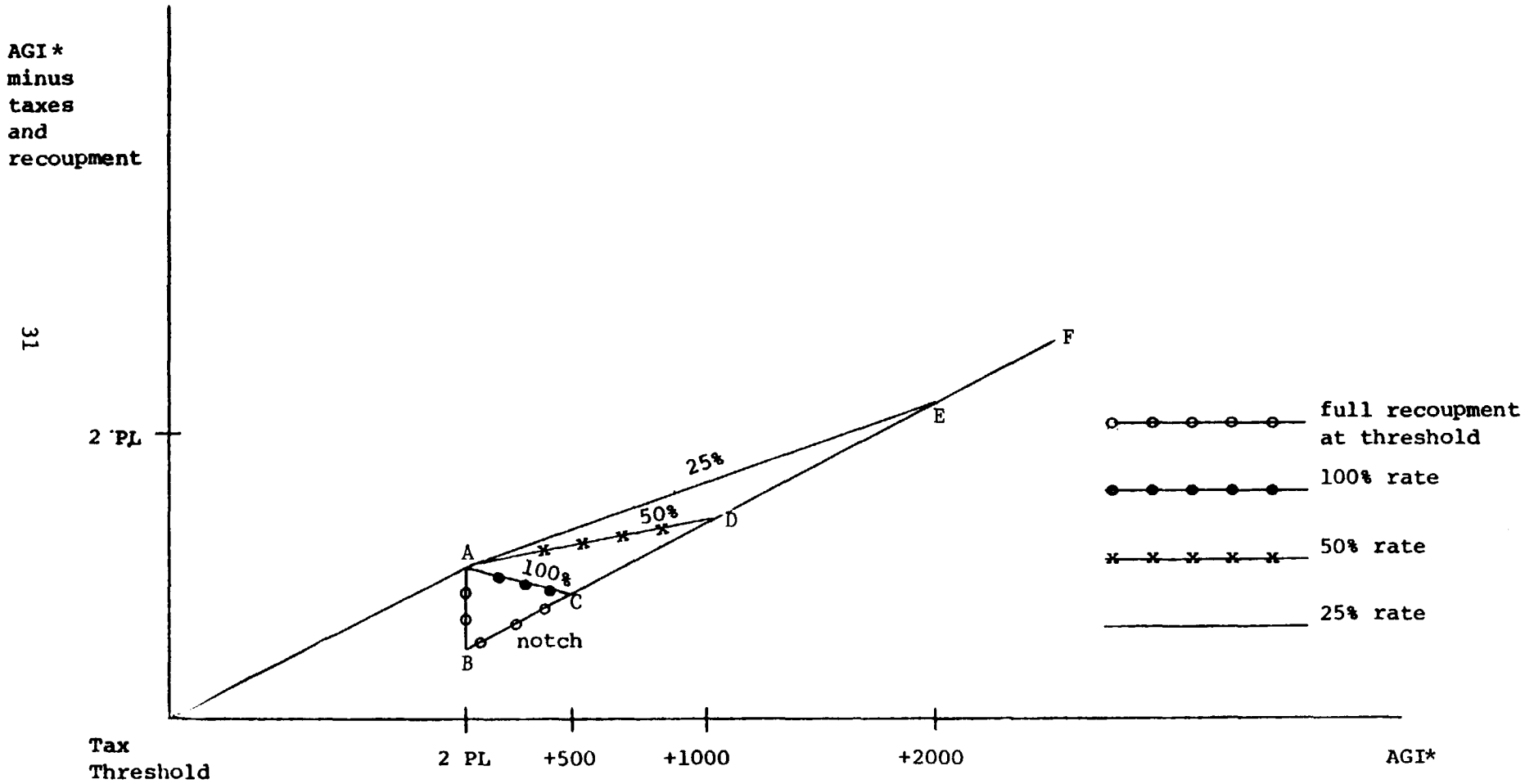
Exhibit 2-1

Effect of Alternative Recoupment Rates on a Single-Tax-Unit Household with a $500 Recoupment Liability



*Annual Gross Income

notch effect of a "full recoupment at threshold" policy, but the household's net income does decrease along line AC, as taxes and recoupment together take away more than one dollar every time gross income increases by a dollar. Once the household's income reaches point C ($500 above twice the poverty line), it has paid back all its benefits, and thereafter moves up line CF.

Under a 50 percent rate, the household follows line AD and then DF. In this case, net income does not decrease as gross income increases within the range where benefits are being repaid (AD), or "phase-in range." Taxes and recoupment together take back less than a dollar from every dollar of additional income. At the same time, though, the phase-in range is larger than before: the household does not pay back all of its benefits until its income reaches $1000 above twice the poverty line. Lower recoupment rates (e.g., 25 percent) result in a higher increase in net income for every additional dollar of gross income, and a larger phase-in range.

As has been said, a low rate may reduce the savings obtained from since less of the total potentially recoupable benefits would actually be recovered. However, whether the proportion of benefits not recovered would be large or small depends on many factors, including, in particular (1) the amounts of benefits households receive (which, as the $500 does in the above examples, affect the size of the phase-in range) and (2) how far households subject to recoupment are above the threshold (which determines where they lie within the phase-in range). If, for instance, households subject to recoupment receive relatively small amounts of benefits or have incomes only slightly above the threshold, it is possible that varying the recoupment rate would not alter the proportion of the benefits recovered as substantially as one might first think. This subject is explored further in Chapter 3.

CHAPTER 3

RECOVERY OF BENEFITS

This chapter presents the study's findings on the number of households and tax units that would be subject to recoupment under the Jeffords plan, the sums they would owe (their recoupment liabilities), and various aspects of the collectibility of the amounts owed.

The principal findings, projected to fiscal year 1980, are:

- approximately five percent of all households* expected to participate during the year would be subject to recoupment; they would receive two percent of the total benefits paid out during the year, and only slightly more than one half of those benefits would be recoupable;
- the total benefits subject to potential recovery would be between $87 and $124 million;**
- over half of all tax units subject to recoupment would have small liabilities - less than $200; and
- approximately one-half of the total recoupment amount could be taken out of the recipients' tax refund checks and the remainder would have to be collected by the IRS.

This chapter begins with a description of the methodology and data base used in the estimation of the effects of recoupment, and a discussion of the strengths and weaknesses of the model and the estimate it produces.

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*All figures in this study exclude Puerto Rico, Guam and the Virgin Islands. Although together they account for about one-tenth of program participants, they are outside the U.S. income tax system, and thus could not be recouped from under any plan dependent on the IRS as the vehicle of collection.

**Gross savings exclusive of administrative costs, if all money subject to recoupment is collected and there are no waivers or deferrals.

Against that background, estimates of the aggregate impact of the Jeffords plan will be presented. These estimates include the number of households and tax units that would be affected by recoupment, and the total amount of recoupment liabilities that might be offset by tax refunds otherwise due. Next, there will be a discussion of the impact of changing some of the basic design parameters--particularly the recoupment rate and the allocation of benefits among household members. Finally, the implications of assumptions employed in the estimation will be analyzed.

3.1 ESTIMATION PROCEDURE

3.1.1 Data Bases Employed

In order to obtain the best possible estimates of potential recoupment amounts and the number of households affected, a microsimulation model was used to measure (simulate) the effects of recoupment had the proposal been implemented in 1975. Since program records were insufficient to serve as a data base, the recoupment simulations were made using the Survey of Income and Education (SIE), while use of a merged data base, constructed by statistically matching the SIE and the Statistics of Income (SOI) supplied relevant tax information.

The SIE, conducted by the Bureau of Census for HEW, is a comprehensive study of over 150,000 households weighted to represent the national population. In addition to supplying a wealth of demographic and economic information, the survey includes data, supplied by the households surveyed, on participation in the Food Stamp Program in 1975. These data provide an excellent starting

point for estimating caseload, total benefits, and the impact of the proposed recoupment policy.

In all data bases like the SIE, internal consistency checks are made on the data supplied. For example, the SIE was examined for misreporting of income. After checking with national income account totals, it was found that there was little under-reporting of earnings. However, there were adjustments made for under-reporting of transfer income, using data from programs such as AFDC, SSI, and OASDI.*

The first step in the simulation was to examine the SIE to isolate a sub-sample containing food stamp recipients. Total households who reported having received benefits in 1975 constituted the food stamp caseload and bonuses, and the shortfall--due to households failing to report food stamp participation--was filled by households whose SIE-reported income qualified them for the program. This sample was also modified to yield another sample of program participants under the New Law (P.L. 95-113) eligibility changes and for projections of the impact of the recoupment in 1980 with increased program participation due to the elimination of the purchase requirement.

The SIE data base, however, does not contain some of the information needed to answer all recoupment questions. For example, it does not have information on tax liabilities or refunds. In addition, those surveyed are grouped by household as in the Food Stamp Program itself, rather than by tax unit as required by a recoupment plan. In order to supplement the SIE data, the

*Reporting of Transfer Income on the Survey of Income and Education: Initial Correction of the Microdata for Underreporting, Harold Beebout, Mathematica Policy Research - October 1977.

households were converted to tax units and then merging this file with the SOI (Statistics of Income), compiled by the Treasury, which is an extremely rich source of tax information for individuals. SOI data include the presence and size of tax refunds, or additional tax liabilities, and income as reported to the IRS--both important variables in determining possible returns from a recoupment policy. No adjustment for underreporting of income was made on the SOI because this file contains information identical to that used in calculating tax liabilities as well as recoupment liabilities.

The use of merged data bases is a valuable tool for improving available data for program analysis. For example, the Treasury Department has used a merged file since 1973 to estimate the impact of changes in tax specifications. In addition to developing the 1975 SIE/SOI merged file used for recoupment estimates, the Treasury Department is currently constructing a 1977 merged file using the March 1977 Current Population Survey (CPS) and the Calendar Year (CY) 1977 SOI. The methodology employed by the Treasury Department to create the merged SIE/SOI and the CPS/SOI is the same.

Because the SIE is so large, a representative subsample of 50,000 households was chosen from the survey before matching with the SOI. Then, SIE households were converted into the IRS filing units using a tested computer routine which was originally developed for the Treasury Department in 1973 to merge the SOI and CPS (Current Population Survey) data bases. This procedure yielded approximately 80,000 tax units.

The merged file was constructed by computer by running each converted SIE tax unit against SOI tax units in the same census area to find the SOI tax

unit which best matched the SIE unit. Matching was done on a set of characteristics including adjusted gross income; age, race and sex of tax unit head; tax unit size and schedule filed; and total wage, and salary by source. An SOI tax unit record was used as many times as it was the best potential match. Once a match was made, the two records were linked.

3.1.2 Simulation Technique

Microsimulation is currently used to assess the impact on costs and caseloads of changes in transfer programs including Aid to Families with Dependent Children, SSI, and food stamps, as well as to measure the impact of changes in Federal income tax law. Simulation allows the application of revised program rules against actual program information, in order that the effect of these new rules can be measured.

This simulation of the Food Stamp Program replicates the eligibility conditions for both the old (1964) and the new (1977) Food Stamp Program laws. In order to simulate annual food stamp bonus and annual income for recoupment purposes, it was vital that the measure of food stamp benefits be an accurate reflection of what occurred during the preceding year. The annual benefits had to be based on the sum of monthly benefits (and the associated monthly income), not annual income observed at tax time. This allowed for intrayear variation in income necessary for the potential recoupment of benefits. Variation in household income from month to month was approximated by using the reported work experience of the household's principal earner (and secondary earners) to compute monthly income. Bonuses were then

calculated for the household using this information plus the other sources of income in determining food stamp allotments.

The above procedure* permits the simulation of annual food stamp participants and annual program payments for 1975 for two versions of the Food Stamp Program: Old Law which was in effect at that time and New Law which was introduced in January 1979. In order to simulate the New Law program, benefit levels, standard deductions, and income screens were deflated to 1975 dollars.

In addition, it should be noted that the simulation model assumes a static household composition throughout 1975; implications of this assumption will be discussed at a later point.

In the next section, the simulation results are presented, as well as estimates of the proposed recoupment policy. Estimates are presented in aggregate and in Chapter 4, by detailed socioeconomic characteristics.

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*A detailed explanation of the simulation procedure is found in Appendix C.

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3.1.3 Baseline Estimates of the Food Stamp Program

The effects of recoupment cannot be evaluated without baseline estimates of the expected cost and caseload* of the program in the absence of a provision for recoupment. However, the choice of baseline estimates is complicated by the fact that the program has recently implemented provisions of the 1977 Act involving elimination of the purchase requirement (EPR) and substantial changes in eligibility rules. At the time this analysis was being done, the implications of these changes were not yet fully apparent. The impacts of the changes in eligibility rules could be reasonably well estimated because the changes mostly involved the program's treatment of income and deductions - things suitable for microsimulation analysis. The impacts of EPR, on the other hand, were more difficult to predict in advance. For those reasons, the principal baseline estimates used in this report are from 1975 simulation results based on the new eligibility rules but not including participation increases induced by EPR. These are "new law without EPR" estimates. For comparison, another set of baseline estimates is also discussed corresponding to pure "old law" conditions.

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*It should be noted that although caseload figures for the Food Stamp Program are normally discussed in monthly (or average monthly) terms, many more persons and households participate during the course of the year than are receiving benefits in any one month. (In addition, as mentioned, all figures in this study exclude Puerto Rico, Guam and the Virgin Islands).
In this report the focus is on all households that participate in the program at any time during the year. In order to avoid lengthy descriptions (such as "households that participate in the program at any time during the year") or awkward phrases (such as "ever-participating house-

The Executive Summary to this report does include estimates of 1980 gross savings based on a caseload which includes the impacts of the EPR-induced participation. These estimates were developed by applying the 1975 simulation results against Food and Nutrition Service caseload projects. Assumptions about increases due to EPR were made on the basis of preliminary data on program participation since EPR, and without any detailed information on the type of households joining the program as a rsult of EPR. For the analysis in this report, it was assumed that households joining the program were distributed identically to other food stamp households in terms of income level, employment status, family size, etc. Recent preliminary findings from a study of EPR indicate that this assumption is, in fact, correct.

3.2 THE JEFFORDS PLAN*

3.2.1 The New Law Without Increased Participation Due to EPR, 1975

According to the estimates prepared for this report, implementation of the Jeffords plan, with a recoupment threshold at twice the poverty line and a recoupment rate of 100 percent,** would result in total recoupment liabilities

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*As discussed in Chapter 2, the Jeffords proposal included a complex provision for apportioning benefits (and potential recoupment liabilities) among the members of food stamp households. This provision would attempt to assign all benefits to the household head, whether or not all members were the dependents, or even the legal responsibility, of that person. For reasons discussed elsewhere, this provision would create severe legal and administrative problems. Therefore, the basic "Jeffords Plan" specified for estimation is modified to use an apportionment of benefits by tax unit size. For example, if there was a five person household with one 3 person tax unit and one 2 person tax unit, three-fifths and two-fifths of total benefits would be allocated to the tax units respectively.

**These figures assume no changes in program participation or income reporting due to recoupment. This assumption, and the difficulty of estimating the effects of such changes, are discussed in Chapter 5.

that range between $57-81 million or between one and two percent of the bonuses paid out during the year. The plan would affect tax filers in 363-477 thousand households or between 4.3 percent and 5.7 percent of all households that receive food stamps at any time during the year. The lower range estimates ($57 million and 363,000 households) are based on the SIE data base and the higher range was estimated using the merged SIE/SOI data base. For reasons indicated later in the chapter, the true figure for recoupment liabilities is expected to be closer to $57 million than $81 million.*

Table 3-1 presents a summary of the estimate based on SIE data. Because of the difference between food stamp households and income tax filing units not all of the persons in these households would be in recoupment tax units.

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*Unless otherwise noted, the tables in this report reflect SIE estimates.

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Table 3-1

Recoupment Amounts:
Summary Table (1975)
(New Law with No EPR-Induced Participation)

	Number	Percent
Food Stamp Totals		
Households (thous.)	8,432	100
Persons (thous.)	25,003	100
Bonuses Paid (mil.)	$ 4,546	100
Food Stamp Households Not Subject to Recoupment		
Households (thous.)	8,069	95.7
Persons (thous.)	24,057	96.2
Bonuses Paid (mil.)	$ 4,457	98.0
Food Stamp Households With at Least One Tax Filer Subject to Recoupment		
Households (thous.)	363	4.3
Persons (thous.)	946	3.8
Bonuses Paid (mil.)	$ 89	1.9
Tax Units (thous.)	363	---
Tax Persons (thous.)	812	3.2
Allotted Bonuses Paid (mil.)	$ 60	1.3
Recoupment Liabilities (mil.)	$ 57	1.3
Average Liability (per tax unit)	$ 157	

As is shown in Table 3-1, the (363 thousand) food stamp households that would be affected by recoupment include 946 thousand persons, but only 812 thousand of those persons (86 percent) would actually be in tax units subject to recoupment. These persons account for about three percent of the annual caseload.

Just as the tax units subject to recoupment would not include all the persons in the corresponding food stamp households, neither would all of the bonus dollars paid to these households be subject to consideration for recoupment. Although $89 million in benefits were paid to households with at least one tax unit subject to recoupment (hereafter to be called "recoupment households"), only $60 million, or 68 percent of those benefits, would be allocated to component tax units with an adjusted gross income (AGI) in excess of twice the poverty line (hereafter to be called "recoupment tax units"). The remainder of the benefits paid to "recoupment households" would be allocated either to persons in tax units not subject to recoupment or to persons in a tax unit not required to file. Thus, this allocation method (by tax unit) would mean that 33 percent of the benefits paid to recoupment households would be unrecoverable.*

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*It should be noted that the noncoincidence of food stamp tax filing units affects recoupment liabilities in both ways. Assessing recoupment liabilities on tax units within households would result in some leakage of the benefits subject to recoupment. But it would also result in the assessment of liabilities on tax units within households that would not be subject to recoupment if the assessment were made on the bases of household income rather than tax unit income. This will be discussed in Chapter 5.

Some recoupment tax units would not be obligated to repay all of the benefits allocated to them. These are the units whose AGI did not exceed the recoupment threshold by the full amount of the benefits they received. For this reason the actual amount of recoupment liabilities would be $57 million, 95 percent of the benefits allocated to recoupment tax units* (and 64 percent of the benefits paid to recoupment households). The average recoupment liability would be $157 per tax unit.

Table 3-2 presents a summary of the estimates based on the merged SIE/SOI data file. The results parallel those derived from the SIE data alone. Again the tax units subject to recoupment would not include all of the persons in the corresponding food stamp households. The discrepancy between food stamp households and tax units is further evidenced by the fact that some households contain more than one tax unit that would be subject to recoupment: the 490 thousand tax units subject to recoupment correspond to 477 thousand households. The merged data base estimate indicates that 60 percent of the benefits paid to recoupment households would be allocated to component recoupment tax units. Thus a portion of the benefits paid--approximately 40 percent--would be unrecoverable. A slightly lower percent (90) of the benefits allocated to recoupment tax units would be actually subject to recoupment.

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*It should be noted that this five percent leakage ($3 million) is the cost of phasing in recoupment on a dollar-for-dollar basis above the threshold rather than imposing a liability for full recoupment for any tax unit above the threshold. The benefit of the phase-in approach is the avoidance of the inequities and potential work disincentives inherent in a "notch" (a precipitous drop in total income) at the threshold. Issues of equity and work disincentives will be discussed in Chapter 5.

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Table 3-2

Recoupment Amounts:
Summary Table/Results From Merged SIE/SOI Data Base (1975)
(New Law With No EPR-Induced Participation)

Food Stamp Households With at Least One Tax Filer Subject to Recoupment	Amounts
Households (thous.)	477
Persons (thous.)	1378
Bonuses Paid (mil.)	$152
Tax Units (thous.)	490
Tax Persons (thous.)	1010
Allotted Bonuses Paid (mil.)	$ 91
Recoupment Liabilities (mil.)	$ 81
Average Liability (per tax unit)	$165

In the 1977 debate of the relative merits of alternative methods of implementing recoupment, it was considered an important advantage of a plan administered through the tax system that recoupment liabilities might be collected easily, by subtracting such liabilities from tax refunds otherwise paid from the Treasury. The proportion of recoupment amounts that would be offset against refunds is an important measure of the ease of implementation, the collection effort required, and most important, the probable total amount of assessed liabilities that would be ultimately recovered. The simulation estimates* show that 48 percent of total recoupment liabilities would be offset by tax refunds (assuming filers did not change their withholding or reporting patterns). This is lower than had been expected by some in Congress, and it means that unless recoupment units voluntarily remit their liabilities the IRS may have to implement direct collection procedures for up to 52 percent of the potential recoupment amounts.

These estimates can be disaggregated to show the percentage of tax units that would have liabilities due in excess of their refund amounts. Table 3-3 shows that 59 percent of all recoupment tax units would be due refunds that would completely cover their recoupment liabilities. However, these units account only for 39 percent of all recoupment liabilities (and 81 percent of the amounts collected through offsets). Another 28 percent of recoupment tax units would have refund amounts that partially cover their recoupment liabilities. In this case, their refunds (which averaged $55 per tax unit)

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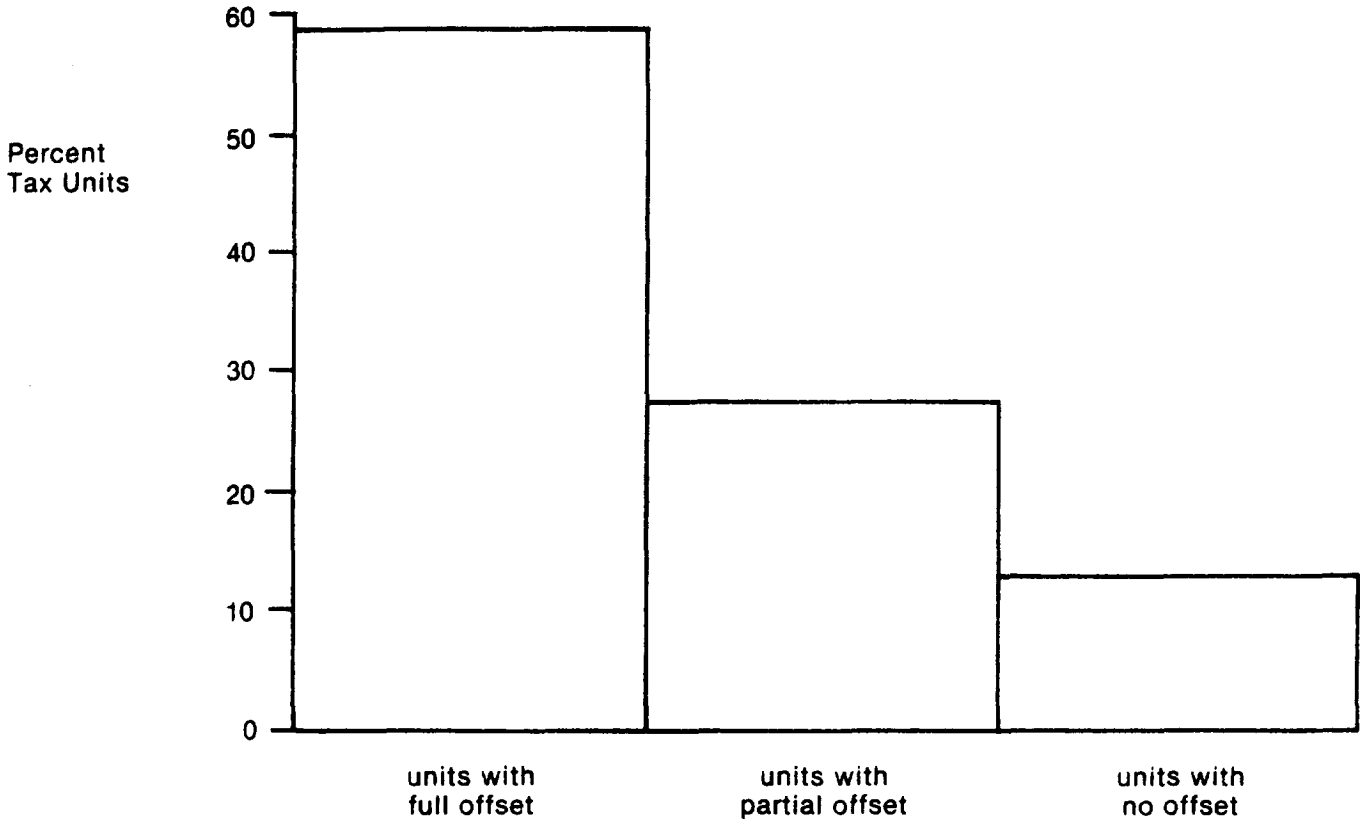
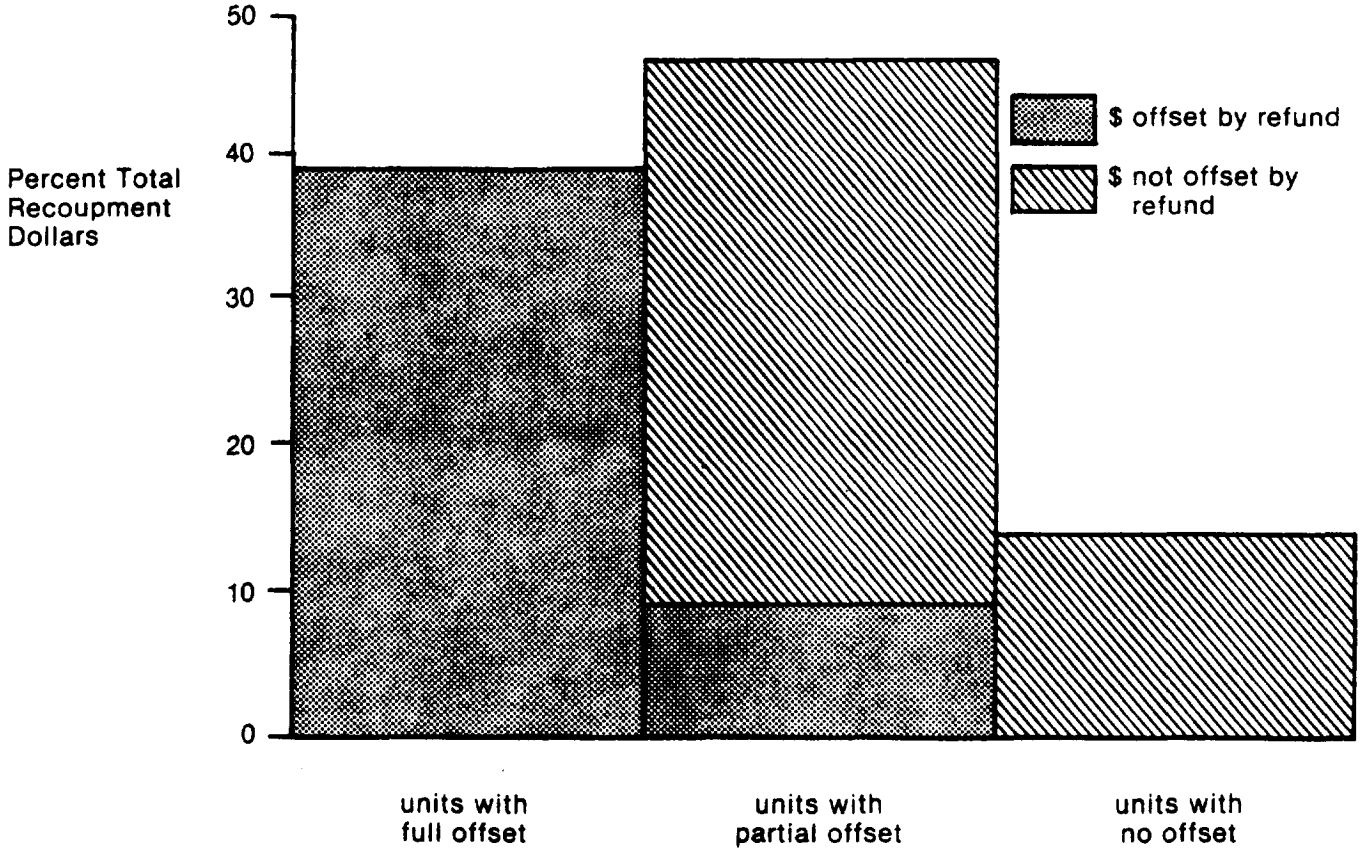
*These percentage estimates are based on the SIE/SOI data base.

Table 3-3 Distribution of Recoupment Amounts and Tax Refund Offsets





would be reduced to zero, and the units would be sent a bill for the balance of their recoupment liability, if they had not included payment with their return. About 19 percent of the obligations of these units could be offset from tax refunds or approximately 9 percent of the total recoupment amount. The third group of recoupment tax units would have no refunds due; their recoupment liabilities would have to be collected by the IRS. About 13 percent of all recoupment tax units would be in this situation and they account for 14 percent of the total recoupment amount (see Table 3-3).

In summary, 52 percent of the total amount would have to be collected from 41 percent of the recoupment tax units. The amounts to be collected are fairly small. For example (as shown in Table 3-4) 44 percent of the units would owe less than $100; more than three-quarters of the units owe less than $300. Some of these tax units would already have a tax liability independent of their recoupment liability, so the recovery of a recoupment liability would not be an unmitigated addition to the IRS collection effort. At a maximum 31 percent of those who owe recoupment amounts after refunds are accounted for also have other tax liabilities which must be paid to the IRS; this assumes that all tax units that had no refund in fact owe more in taxes. (The characteristics of these tax units and the distribution of recoupment liabilities and collection amounts will be explored in Chapter 4).

Another group of particular interest is comprised of those recoupment tax units in households receiving food stamps in the months that recoupment liabilities would be due. Liabilities in excess of a refund would be

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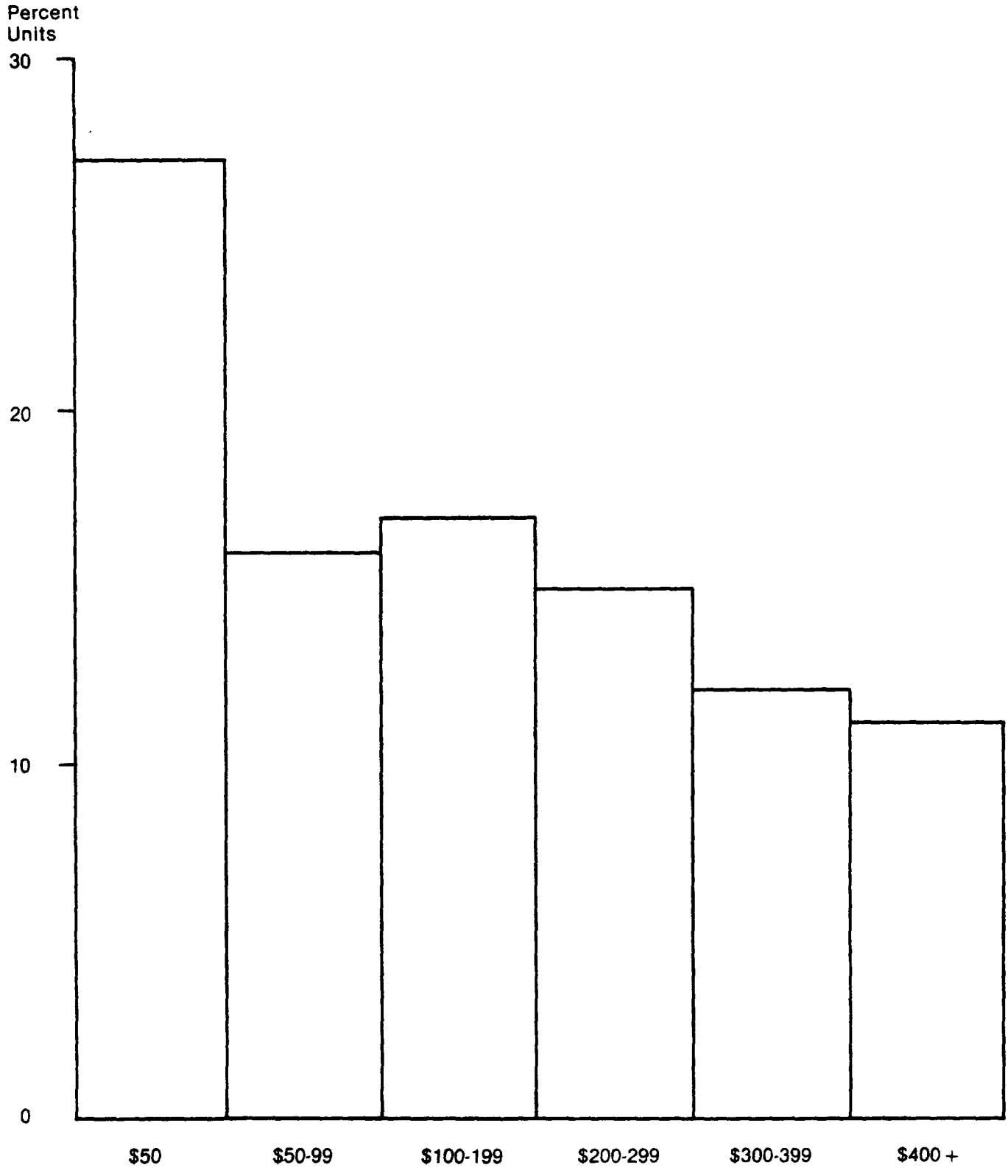
Table 3-4 Amounts To Be Collected That Are Not Offset By Refunds*



* Total units to be collected from = 201,000

deferred for these units until they were no longer receiving food stamps. About five percent of all recoupment tax units would be eligible for this type of deferral. As shown in Table 3-5, the amount of recoupment liability in excess of their refunds that would be deferred constitutes seven percent of the total recoupment amount. The IRS would have to set up special payment schedules, to take effect when these units no longer receive food stamps, in order to collect the liabilities not covered by their tax refunds.

It is difficult to project with precision what the recovery rate will be because, among other things, no penalty or interest is attached to the recoupment amount owed to the IRS. However, given current IRS policies, it is unlikely that a special collection effort beyond a series of letters will be undertaken for the size of liabilities owed. Since over 90 percent of wage earners will receive a refund once during the course of several years, the IRS usually waits for a refund to appear at some point over a 6-year period and then subtracts the amount owed. Thus in the worst case only 48 percent of the liability (or between $27-39 million for 1975*) would be collected in the same year as recoupment liability assessment, and the amounts owed would be recovered from refunds during the next six years. If those who owed other tax liabilities paid their recoupment liability in full in the same tax year, then 61 percent of the total recoupment amount could be recovered. On the other hand, some of these units might apply for waiver under the hardship provision of the proposed amendment and, of course, it is uncertain that the units would even pay their tax liabilities in the same tax year.

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*Based on the SIE-new law without EPR.

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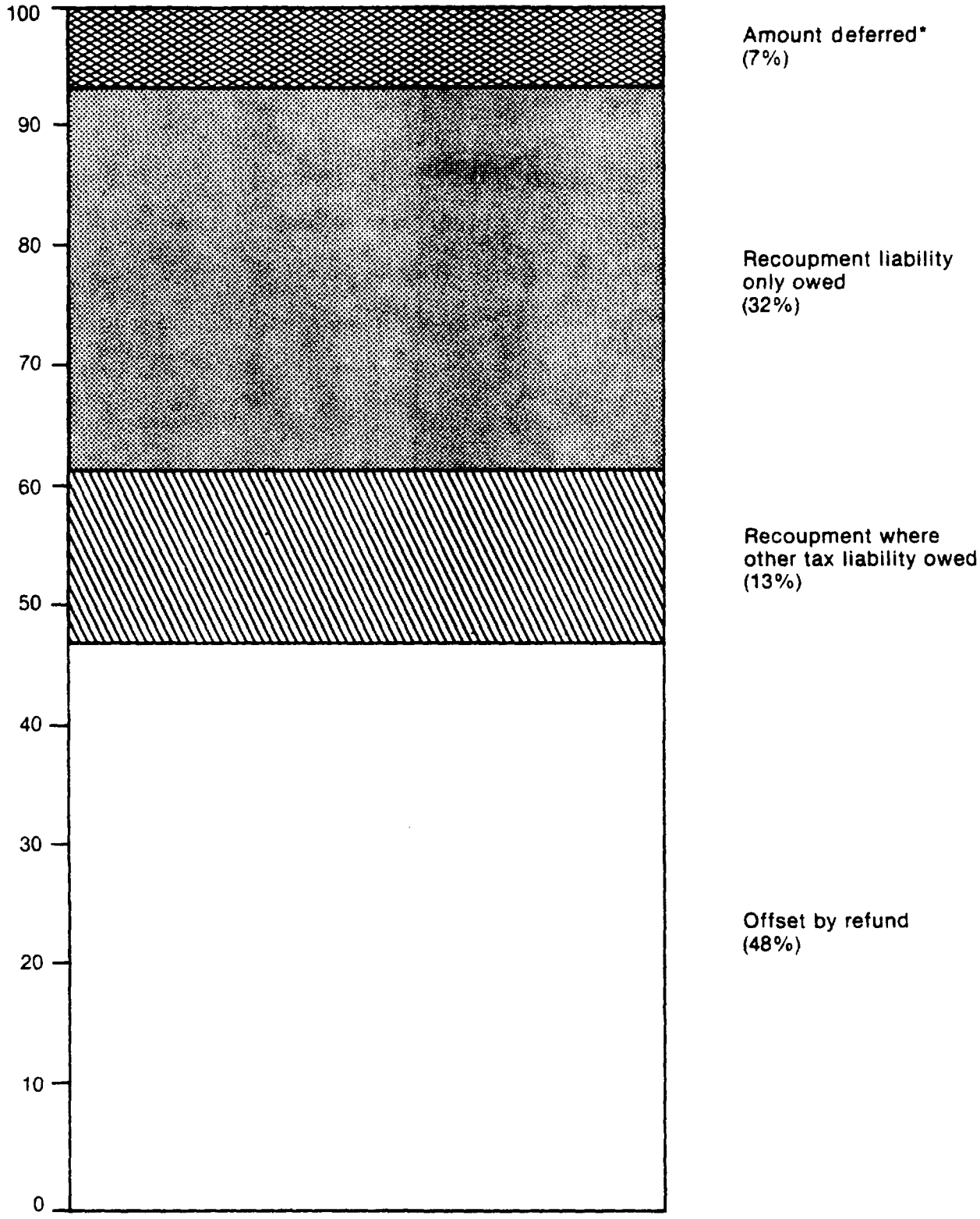
Table 3-5 Recoverability of Recoupment Dollars Including Deferrals



* Deferred for tax month, April only

Under the assumption that 90 percent of the amount owed would be collected over a 6-year period and the collection amounts were divided equally among each of the 6 years, the present discounted value of the recoupment amount that could be recovered in the year of assessment (1975 in this case) would range between $48.9-69.4 million (See Table 3-6).*

3.2.2 Comparison with Recoupment Under "Old Law" Rules

A comparison of the results presented above with estimates of potential recoupment amounts under the old law (before the 1977 Food Stamp Act) show that the enacted reforms have reduced the number of relatively high income households, and therefore reduced the potential effects of recoupment. Table 3-7 shows that under the old law, potential recoupment amounts for 1975 would total $66 million, 1.4 percent of (old law) program costs and 16 percent higher than under the new law. Under the old law, recoupment would have affected 490 thousand households, about six percent of the (old law) caseload and 35 percent higher than under the new law. From another perspective, if recoupment had been a provision of the old law, the recent reforms would have reduced the number of recoupment households by 26 percent, and the potential recoupment amounts by 13 percent.

3.2.3 The Impact of Recoupment in 1980

Potential recoupment amounts for 1980 were calculated by applying the percentages of food stamp households subject to recoupment in the 1975

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*Money collected in the future is worth less than money collected today. The present value of a dollar amount reflects what the future dollar amounts are worth in today's terms.

Table 3-6

Amounts Collected over Time*
(Million of Dollars)

Year of Assessment	Actual	Present Discounted Value in 1975
1975	27.36	27.36
1976	4.94	4.49
1977	4.94	4.08
1978	4.94	3.71
1979	4.94	3.37
1980	4.94	3.07
1981	4.94	2.79
Totals	57	49

* 10% discount rate

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Table 3-7

Comparison of Recoupment Amounts
Under Alternative Assumptions (1975)

Food Stamp Households With At Least One Tax Filer Subject to Recoupment	Old Law	New Law	Percent Reduction From Old Law to New Law
Households (thous.)	490	363	26
Persons (thous.)	1839	946	49
Bonuses Paid (mil.)	$ 118	$ 89	25
Tax Units (thous.)	497	363	27
Tax Persons (thous.)	1301	812	38
Allotted Bonuses (mil.)	$ 72	$ 60	17
Recoupment Liabilities (mil.)	$ 66	$ 57	14

simulation against projections for 1980 caseload and bonus dollars. Food and Nutrition Service estimates for 1980 project annual program participation of 25,564,500 separate individuals (excluding Puerto Rico, Guam and Virgin Islands), including a participation increase due to EPR. This is equivalent to a caseload of 8.52 million households*, which when multiplied by the percentage of recoupment households (4.3 percent) yield 366,425 recoupment households for 1980. Bonuses allocated to all food stamp households would equal $6,952 billion; total recoupment liabilities, based on the 1975 simulation percentage of 1.25 percent, would be 86.9 million (see Table 3-8).

3.3 ALTERNATIVE RECOUPMENT PLANS

All of the estimates presented thus far are based on the parameters defined in the Jeffords proposal: a recoupment threshold at twice the appropriate level and a recoupment rate of 100 percent. In addition, these estimates assumed a tax definition of income and filing unit, also as specified in the Jeffords proposal. The one change that was made for the estimation of the basic plan was in the assignment of benefits to tax units within a food stamp household: For the reasons discussed, assignment was made on a simple tax unit size basis rather than on the relative contribution to "household maintenance."

This section will explore the effects of varying some of these basic parameters. First, the significance of the recoupment threshold will be discussed. Next, estimates will be presented for plans with different

*$\frac{25.564 \text{ million people}}{3 \text{ average household size}}$ = 8.52 during the course of the year

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Table 3-8

Recoupment Amounts: Summary Table (FY 80)
(New Law With EPR-Induced Participation Increases)

Food Stamp Totals	SIE Data Base Estimate	Merged Data Base Estimate
Households (thous.)	8,522	8,522
Persons (thous.)	25,565	25,565
Bonuses Paid (mil.)	$6,952	$6,952
Food Stamp Households With at Least One Tax Filer Subject to Recoupment		
Households (thous.)	366	481
Recoupment Liabilities (mil.)	$87	$124
Average Liability (per household)	$238	$258

recoupment rates, with the threshold and other parameters the same as in the basic plan. Then the implications of changing the allocation or assignment of benefits will be discussed. With each of these variations, the income and filing unit definitions will remain the same as those used for income tax purposes.

3.3.1 Variations in the Recoupment Threshold

The number of households affected by recoupment, and thus the total recoupment amount, are in large part a function of the recoupment threshold.

Although lowering the threshold by 25 percent, from 2.0 to 1.5 times the poverty level, would more than double the potential recoupment amounts, from $57 million to $141 million; it would also more than double the number of affected households, from 363 thousand to 804 thousand. Raising the threshold by 25 percent from 2.0 and 2.5 times the poverty level, also would significantly affect the impact of the recoupment plan. Recoupment liabilities would decrease by a little more than half, from $57 million to $27 million; and it would reduce the number of recoupment households by about the same proportion, from 363 thousand to 164 thousand.

These results are intuitively sensible. As the threshold increases, recoupment could be expected to affect fewer households and result in reduced total liabilities. Further, the number of food stamp households would seem likely to be concentrated at lower income levels and "thin out" at higher levels of annual income.

Lowering the threshold raises several major problems. First the equity and incentive concerns, discussed fully in Chapter 5, will affect more households. More important, the program's definition of adjusted monthly income allows households with gross monthly incomes in excess of 1.5 times the poverty level (currently $10,725 for a family of four) to receive benefits from the program on a monthly basis.* For smaller households the gross income limits reach almost 2.0 times the poverty level. It would be unreasonable to pay out benefits to these households twelve months in a year and then recoup those benefits through a plan with a threshold lower than the program's annualized gross income ceiling. Thus, regardless of the estimates, it would not be logical to reduce the threshold below the

[redacted]

level proposed in the Jeffords plan.**

3.3.2 Variations in the Recoupment Rate

As explained, the recoupment rate is the percent income offset for each dollar of income over the threshold. A 100 percent recoupment rate would recover $1 in recoupment liabilities for each dollar of income, while a 50 percent rate would recover $.50 for each $1 of income over the threshold. Table 3-9 summarizes the estimates of recoupment amounts and affected households for the basic plan, with a recoupment rate of 100 percent, for alternative plans with recoupment rates of 50 percent and 25 percent,

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*For example, a family of four with a monthly income of $945 ($11,340 annually) would be eligible for benefits of about $26.

**Because of differences between the tax and food stamp filing units, a large number of households legally receiving benefits throughout the year would be liable for recoupment under the Jeffords plan, even with the threshold at twice the poverty level. Aside from administrative burdens, this issue of unintended collections is one of the more serious problems with the proposal to use the IRS as the agent of recoupment. This problem will

Table 3-9

Recoupment Amounts:
Alternative Recoupment Rates* (1975)
(New Law With No EPR-Induced Participation)

	Full Liability at Threshold	100%	50%	25%
Households (thous.)	363	363	363	363
Persons in Households (thous)	946	946	946	946
Persons in Tax Units (thous.)	812	812	812	812
Bonuses Paid (mil.)	$ 89	$ 89	$ 89	$ 89
Allotted to Tax Units (mil.)	$ 60	$ 60	$ 60	$ 60
Recoupment Liabilities (mil.)	$ 60	$ 57	$ 53	$ 48

*Threshold at 2.0 times Poverty Level

and for a plan with full liability for all benefits at the threshold. (The threshold for all variants is held constant at twice the poverty line.) Table 3-10 shows these relationships graphically. In Chapter 2, it was noted that the impact of varying the recoupment rate was not as certain as the impact of varying the threshold. Clearly, lowering the recoupment rate would reduce potential recoupment liabilities. However, the estimates show that recoupment rates can be substantially reduced without corresponding reductions in recoupment liabilities.

The maximum potential recoupment amounts, at a threshold equal to twice the poverty line, would be $60 million, which would require the assessment of full liability for all food stamp benefits to any tax unit with AGI in excess of the threshold, and the collection of all liabilities in the year they are assessed. This method of recoupment would create a "notch", such that a tax unit with income just above the threshold would have a substantially lower net disposable income, than a tax unit with income a few dollars lower. This would cause a serious inequity and a potentially serious work disincentive.

The Jeffords plan would not create such a notch. It would atttempt to recoup one dollar of food stamp benefits for every dollar of income above the threshold, a 100 percent recoupment rate. The "cost" of the dollar-for-dollar phase-in is a reduction of potential liabilities by five percent, from $60 million to $57 million.

Although a 100 percent recoupment rate may be preferable to full liability at the threshold, it will would create inequities and work disincentives

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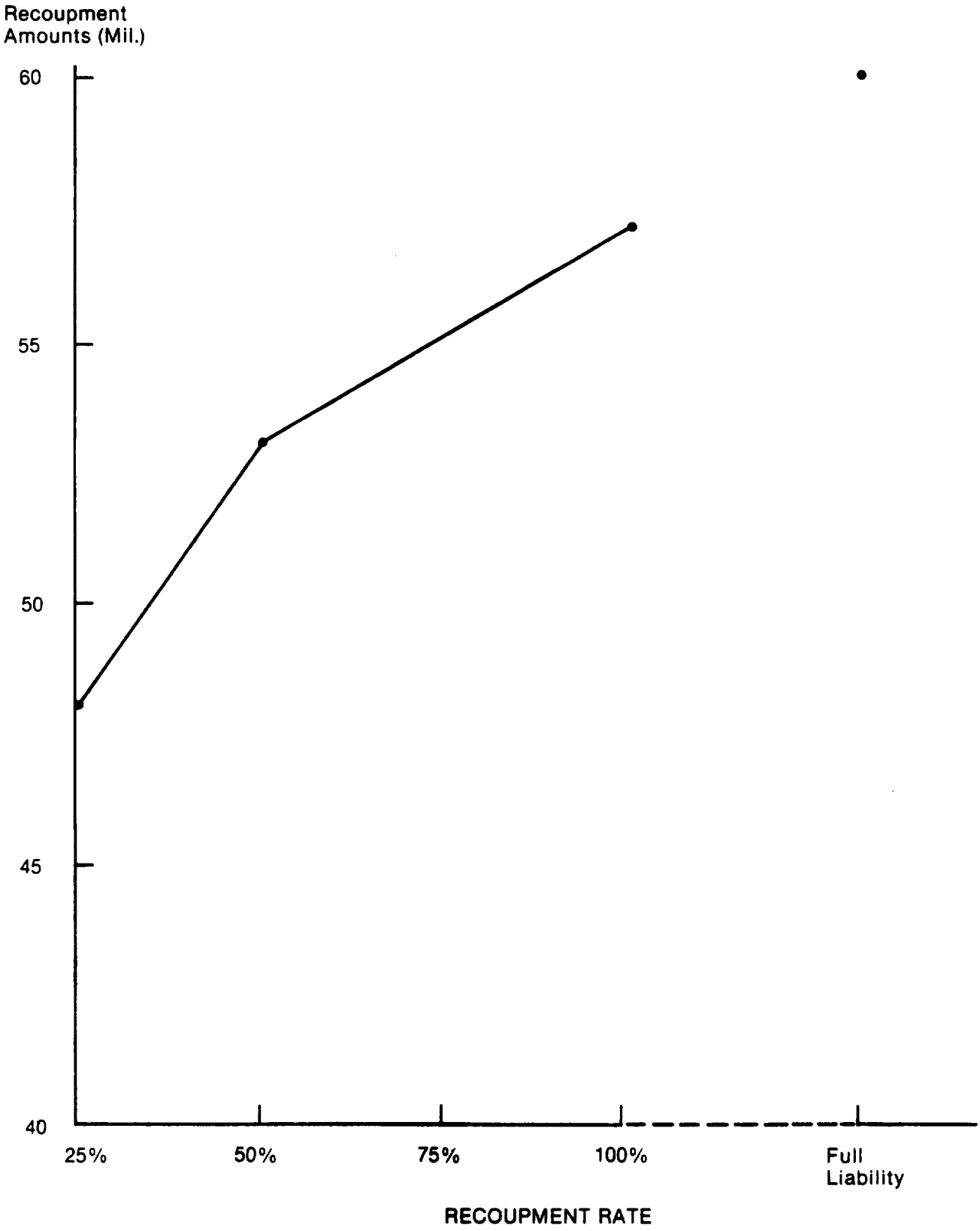
Table 3-10 Recoupment Amounts:
(New Law With No EPR-Induced Participation)
Alternative Recoupment Rates*



* Threshold at 2.0 times poverty level.

by imposing total marginal tax rates, when income and payroll taxes are considered, well in excess of 100 percent, so that every dollar of earnings above the threshold would result in more than a dollar reduction in disposable income until all benefits were recouped. The problem of work disincentives inherent in a 100 percent recoupment rate will be more fully discussed in Chapter 5. Cutting the rate in half, to 50 percent, would reduce recoupment liabilities by only seven percent, from $57 million to $53 million. Reducing the rate still further to 25 percent would reduce the potential recoupment amounts to $48 million, about 16 percent lower than a 100 percent recoupment rate.

Table 3-10 shows that recoupment amounts are relatively insensitive to recoupment rates over a very broad range. This makes sense because the recoupment rate affects the liabilities only of those tax units in the phase-in income range. Food stamp tax units with incomes below the threshold have no recoupment liability, regardless of the recoupment rate. And tax units with incomes above the phase-in range would be liable for full recoupment, regardless of the recoupment rate. The recoupment rate affects the liability only of those tax units within the phase-in range, which is determined by the recoupment rate and the individual tax unit's food stamp allotment. With a 100 percent recoupment rate, relatively fewer households are affected by the marginal tax rates of the phase-in range, but they may be subject to severe work disincentives. With a 50 percent or 25 percent rate the range is doubled or quadrupled, respectively, but households in that range are affected far less severely by the marginal

tax rates. However, relative to income the average allotment is small ($165), so even at a low recoupment rate the phase-in range is relatively narrow ($660 on average with a 25 percent recoupment rate).

3.3.3 Variations in the Allocation of Food Stamp Benefits

Because of legal and administrative problems with assigning food stamp benefits to tax units on the basis of "relative contributions to household maintenance," as is specified in the Jeffords proposal, the basic plan specified for simulation uses a tax unit allocation of benefits among members of food stamp households and considers only the benefits of those members of tax units that file to be available for recoupment. This results in the "non-recoverability" from the recoupment system of those benefits allocated to members of food stamp households who are not in tax units that file. This problem of "non-recoverability" of benefits, in addition to decreasing total recoupment amounts, can also result in inequities. For example, two households may receive equal income, but because of their tax unit composition, they may be assessed for different amounts of recoupment liability.

Because there are no existing data on relative contributions to household maintenance, it is impossible to simulate the allocation method described by the Jeffords plan. In order to obtain a gross estimate of the "non-recoverability" from the tax unit size allocation method, however, a plan that assigns all food stamp benefits to the tax unit subject to recoupment has been estimated. Such a plan would obviously create gross

inequities and would be administratively infeasible; thus, the plan is purely hypothetical, presented for the purposes of estimating an upper bound on total recoupment liabilities. This allocation scheme, termed here "full allocation," requires perfect foreknowledge of which tax unit in a household has an adjusted gross income in excess of the recoupment threshold. The benefits that had been allocated to the other constituent tax units in the household (in those instances where the household contained multiple tax units) were then reallocated to the tax unit with the adjusted gross income that exceeded the threshold by the greatest amount. For example, if a five person household consisted of a one person tax unit and a four person tax unit and the individual filer's adjusted gross income exceeded the threshold (for a single person) by a greater percentage than the four person tax unit's adjusted gross income exceeded their threshold, the household's benefits were assigned to the single filer for the purposes of recoupment. Since this allocation occurred irrespective of the proportion of earned income for the household as a whole, the method provides an upper bound recoupment estimate that is higher than the amount that would be subject to recoupment under the Jeffords allocation method.

Under the full allocation method $89 million in food stamp bonuses would be allocated to recoupment filing units, compared to $60 million under proportional allocation by tax unit size. Recoupment liabilities would be $79 million, compared to $57 million. Because recoupment bonuses cannot be fully allocated to the tax unit with the highest income, fully one-third

of the bonus value, and consequently the potential recoupment amounts, are allocated to non-filing tax units that are not subject to recoupment.*

3.4 IMPLICATIONS OF ESTIMATION PROCEDURES

These estimates are lower than those developed during the period in which recoupment was discussed by the Congress. One problem faced by all those who made the earlier estimates and by those developing the estimates presented in this report was that there is no information on annual food stamp benefit amounts received by participating households. Obviously, in order to estimate the amount of benefit paid annually to households or tax units whose annual incomes exceed twice the poverty line, annual bonus amounts for all households are required. Since neither program data nor survey data contain this information, a method of estimating these annual bonuses had to be developed.

Differences in the method of annual benefit estimation may make a substantial difference in recoupment amounts. The estimates of annual benefits used for this report can be distinguished from earlier estimates by the substantial amount of detailed information which played a part in their determination. For this report, months of unemployment and employment of all earners, months of receipt of unemployment compensation and months of reported Food Stamp Program participation were all incorporated in the procedure for estimating annual benefit amounts.

At least one estimate proposed to the Congress was based on the characteristics of old law participants, which biases the recoupment estimate

*Again, it must be emphasized that the non-coincidence of tax units and households causes unintended collection as well as leakage. As will be described in Chapter 5, many tax units who would actually be liable for recoupment would be members of food stamp households who are legally and appropriately eligible for food stamps in every month of the year.

upwards. As previously explained, the number of households potentially subject to recoupment and the amounts recoupable from them have been reduced as a result of the major program changes required by the Food Stamp Act of 1977. Some of the most important changes affect the way in which deductions are calculated in computing net income for eligiblity determination. Formerly deductions were figured on an individual itemized basis, so that there was no effective limit set on the extent to which gross income could exceed net income and hence the extent to which it could exceed the eligibility threshold. Currently, only standardized deductions are allowed and these new provisions effectively set a ceiling that restricts gross monthly income to below twice the poverty line. Additionally, the 1977 Act lowered the net income limits for eligibility by roughly 15 percent for a family of four. In combination, these two major changes either eliminated recoupable households from the program or reduced their benefits received and consequently the amount of recoupment liability.

One earlier method of estimating recoupment liabilities assumed that the proportion of total benefit dollars received by households with incomes in excess of twice the poverty line was equal to the proportion of total months of participation accounted for by these households. In order for these two proportions to be equal, one has to assume that the average benefit received in the same regardless of annual income. It seems more realistic to assume that households with annual incomes in excess of twice the poverty line have higher incomes during their months of participation and thus have lower average benefits than households with lower incomes.

Specifically, it seems probable that these higher income households have someone receiving earned income (perhaps a second earner while the primary earner is unemployed) or substantial income transfer payments (such as unemployment compensation) in the months of participation. If the assumption about benefit amounts in this earlier method overstates the benefit amounts received by higher income families, it also overestimates potential recoupment amounts.

A second method employed in making earlier estimates was to calculate annual benefits using reporting months of participation from the 1975 SIE and a 1976 reported monthly benefit amount, also from the SIE. Using 1975 participation coupled with 1976 benefits that have been increased to reflect price increases, rather than using 1975 benefit amounts, will bias upward both the annual benefit calculations and the resulting recoupment estimates. Both of these earlier estimation methods incorporated two other procedures which result in further upward biases in the recoupment estimates. Most significant in terms of recoupment amounts is the fact that the estimates were based on households, rather than tax units. As was discussed earlier, in order for the Jeffords plan to be implemented by the Internal Revenue Service, recoupment thresholds and liabilities must be assigned to tax filing units, not food stamp households. In many cases tax units subject to recoupment are smaller than the households in which they are imbedded and they are assigned less than 100 percent of the household benefits. As a result, the amounts recouped from the tax units are less than the amounts recoupable from households with incomes in excess of the threshold. Second, both types of estimates reflect total food stamp

benefits received by recoupment households. Besides the "full allocation" example presented earlier, those that actually would be subject to recoupment exclude a portion of these. Also described in Section 3.2.2, the plan would recoup one dollar of food stamp benefits for every dollar of income above the threshold rather than creating a full liability "notch" at the threshold. Not taking account of this dollar-for-dollar phase-in means that the earlier estimates overstated recoupment amounts, although the extent of the overestimate may not be substantial.

We have discussed reasons why the two methods employed in producing earlier estimates tended to overestimate potential recoupment liabilities. It is also important to point out some aspects of the current estimation method which could produce upward or downward biases in the recoupment estimates.

An important aspect of the simulation procedures which may overestimate FY 1980 recoupment amounts is that the simulation data reflect economic conditions in 1975 during the deepest recession in more than a generation. In that year recoupment-type households -- male-headed, with income primarily from earnings -- were a particularly large proportion of the food stamp population. In 1975, unemployment was 8.5 percent of the civilian labor force, while Administration estimates of unemployment for 1980 are about 6.7 percent. If the incidence of unemployed male-headed households is lower than in 1975, recoupment amounts will be lower as well. Chapter 4, "Characteristics of Food Stamp Households" will discuss this issue more fully.

A slight downward bias in the estimate is probable because in calculating a household's benefits, the simulation model assumes that in multiple earner households where both workers work less than a full year, the secondary worker tends to work when the primary does not. This assumption will, in general, reduce benefits to higher income households because their income will be greater than it would be were both earners to be unemployed. Since benefits will be lower, recoupment liabilities will be lower as well. However, the impact on the total recoupment liability should not be great since only 15 percent of all food stamp households and 18 percent of recoupable households have more than one earner. On the other hand, households that report receiving food stamps for more months than they appear to be eligible were given an annual benefit based on reported months of participation. This assumption probably overstates recoupable benefits, but may be a fair reflection of lags in program operation.

There may also be behavioral responses to a recoupment program which could affect recoupment amounts but were not incorporated into the simulation. Chapter 5 discusses these responses.

Finally, the estimation technique did not simulate intra-year changes in household and tax unit composition. Such changes could alter the recoupment amount in either direction, as the case of a new primary earner entering the household is likely to lead to a recoupable unit while the departure of a primary earner may decrease the tax unit's income to below the threshold.

Thus far the discussion of biases inherent in our estimation technique has applied both to the unmerged and the merged estimate. There is one additional upward bias in the recoupment amount estimated with the merged SIE/SOI data base. The procedure used to estimate recoupment on the merged SIE/SOI file used SIE data to compute food stamp benefit at the household level exactly as was done for the estimates based only on the SIE data. The household benefit values were allocated to tax units based on SOI tax unit size and the SOI values for AGI were used to determine the recoupment threshold.

The procedures employed in matching the two data sets allowed SIE and SOI income information to deviate up to $2000 for each match. Thus all SIE households with food stamp benefits and SIE based AGI within $2000 of the recoupment threshold have some probability of having an SOI-based AGI on the opposite side of the recoupment threshold. If the number of food stamp households crossing the threshold in each direction were equal, there would be no bias. That is not the case since the majority of food stamp recipient households' AGI's do not exceed the SIE recoupment thresholds. Stated differently, a larger proportion of food stamp households with AGI's within $2000 of the recoupment threshold have incomes below the recoupment threshold than above it. Thus, there are many food stamp households with an SIE AGI below the threshold who were subject to being matched with a high-AGI SOI tax unit, making them incorrectly subjec to recoupment. There are only a rew food stamp recipient households with an SIE AGI above the recoupment threshold being matched with lower-AGI SOI tax units who would be spuriously exempted from recoupment because there are few food stamp recipient households with an SIE AGI greater than twice the poverty line.

CHAPTER 4

CHARACTERISTICS OF RECOUPMENT HOUSEHOLDS

This chapter presents our best estimates of which households and tax units would be affected by recoupment. The first step in assessing the impact of the plan is to draw a profile of recoupment households* by household size, income, recoupment liabilities and so on. For some characteristics, such as region of residence, the profile of recoupment households are the same as for all food stamp households. For other characteristics the profiles are quite different. Some of these differences, income, for example, are derived directly from the rules defining the target population for recoupment. Others, such as months of program participation, help to distinguish more clearly the types of households that would be affected by recoupment.

As previously explained, these characteristics are drawn from a computer simulation of recoupment households based on the 1975 Survey of Income and Education, which included reported food stamp participation. The simulation model assumes that no changes in households composition occur throughout 1975. All estimates presented in this section are for the Jeffords plan, with the allocation of benefits by tax unit size and with the assumption of no EPR-induced participation increase after the full implementation of "new law" rules. It should be noted, however, that all percentage figures reported in this chapter would be the same if EPR-induced

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* A recoupment household is defined as a household which has at least one tax unit within it subject to recoupment. Where the tax unit subject to recoupment is smaller than the food stamp household, the characteristics of the entire food stamp household are presented.

participation increases were included. This is because the simulation that estimates new law with increased participation due to EPR assumed that the distribution of new participants would resemble that of pre-EPR food stamp participants. Generally, the tables presented in this section show for each characteristic or dimension: (1) the distribution of all food stamp households, (2) the distribution of all recoupment households, (3) the incidence of recoupment for each household type, and (4) the distribution of recoupment liabilities.

4.1 HOUSEHOLD SIZE

Estimates of the incidence of recoupment indicate that single persons and four-person households (usually two-parent with children) are affected proportionally more than households of other sizes. As is shown in Table 4-1, the distribution of recoupment households is more heavily weighted toward single person than that of all food stamp households. Average household size for recoupment households is 2.6 persons, while for all food stamp households it is 3.1 persons. Both groups--total food stamp households and recoupment households--are skewed toward small households, with over half of all households consisting of one or two persons. The amount of recoupment liability increases with household (or tax unit) size. While single persons account for about 42 percent of all recoupment units, they are liable for 26 percent of the total recoupment amount. Four person units, most frequently nuclear families, comprise approximately 15 percent of recoupment units,

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Table 4-1

Characteristics of Recoupment Households*:
Size of Recoupment Households and Tax Units

Household Size	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence**	Recoupment Dollars distribution	Tax Units distribution
1	30%	41%	6%	26%	49%
2	21	17	4	14	14
3	17	11	3	13	13
4	12	15	6	24	15
5	8	8	4	8	7
6	4	2	2	2	1
7+	7	6	4	14	1
	100%	100%	4%	100%	100%
Average Size	3.1	2.6			2.3

Note: Columns may not add to 100 percent due to rounding.
*Under NEW LAW with NO EPR- Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size.
**The incidence figures indicate the frequency with which recoupment households occur within a particular class of all food stamp households. For example, 6% of all single person food stamp households are subject to recoupment.

but since their benefits are larger, they account for 24 percent of recoupment dollars (see Table 4-2).

Table 4-1 also shows the distribution of recoupment tax units by the size of the unit. Recall that because of differences in filing unit definitions, some recoupment households would have more than one tax unit and some members of recoupment households would not be part of a tax unit filing a return. Both differences would tend to result on average, in tax units slightly smaller than households. There are sixteen percent fewer recoupment tax persons than persons in recoupment households. The average recoupment household would have 2.6 members, but the average recoupment tax unit would have 2.25 members. Table 4-1 shows this shift in unit size caused by the translation from household to tax unit. For example, while 16 percent of recoupment households have five or more members, only 9 percent of recoupment tax units are of similar size.

4.2 HOUSEHOLD INCOME

Not surprisingly, recoupment households have higher annual incomes than food stamp households as a whole. Table 4-3 shows that over 90 percent of all recoupment households would have per capita incomes in excess of $3000 per year. (These are 1975 figures; the per capita poverty level income in that year was in the $1000-2000 range.) A third of all recoupment households would have per capita incomes in excess of $6000, well over three times the per capita poverty level for households of all sizes.

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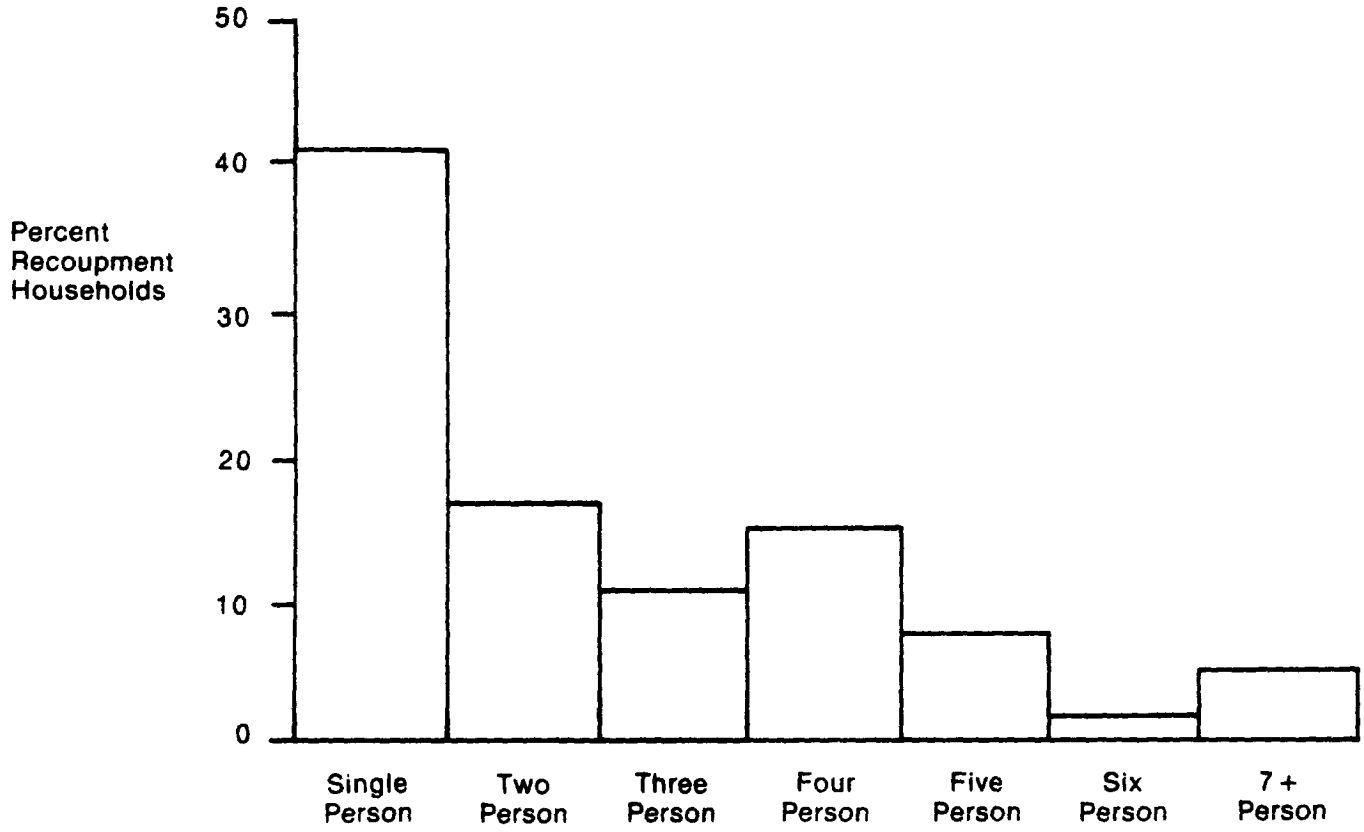
Table 4-2 Characteristics of Recoupment Households: Size of Household/Amount Recoupment Dollars



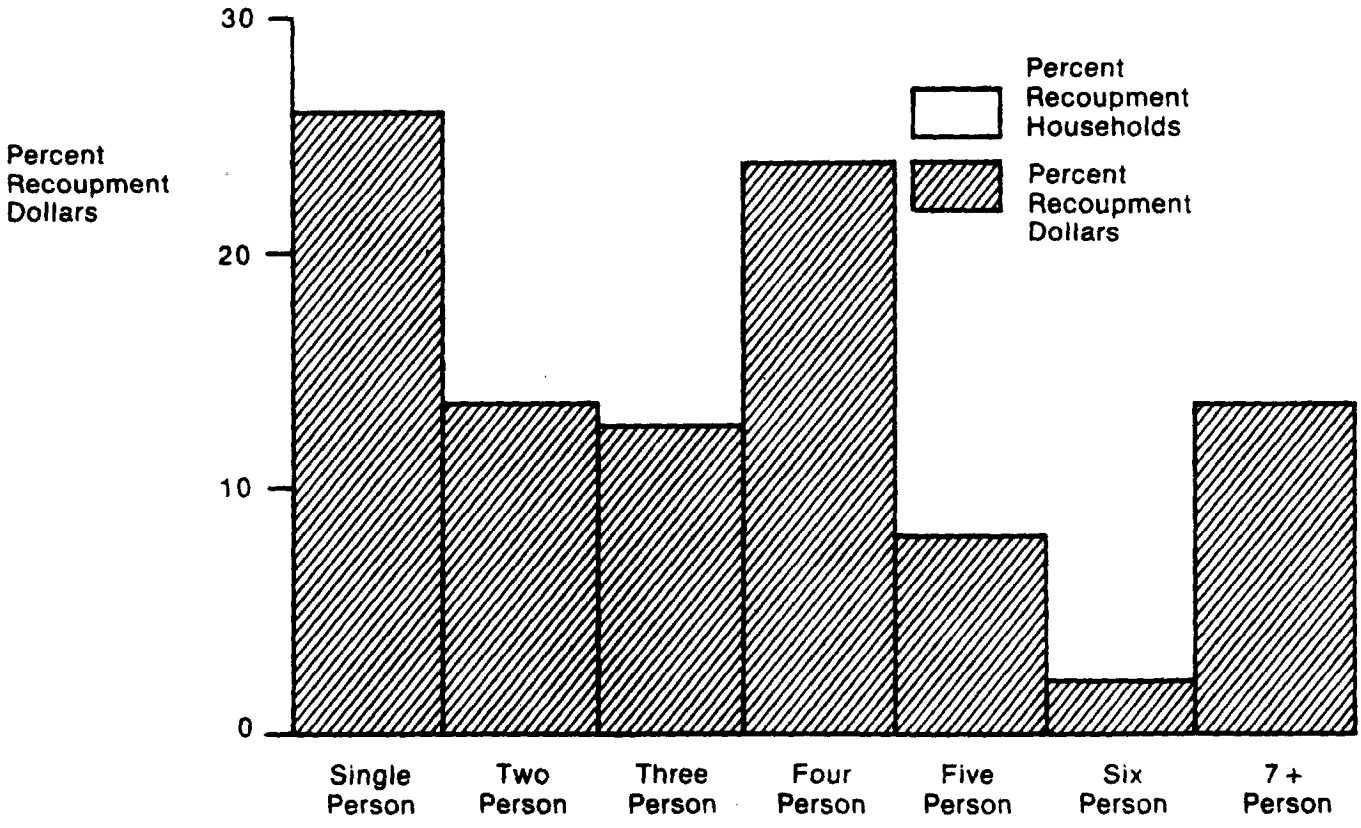


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Table 4-3

Characteristics of Recoupment Households*:
Per Capita Annual Income

Per Capita Income	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amount distribution
$ 0 - 999	21%	--	--	--
1000 - 1999	42	2%	0.2%	2%
2000 - 2999	22	5	1	10
3000 - 3999	7	23	14	29
4000 - 4999	3	16	23	19
5000 - 5999	2	18	39	12
6000+	3	37	53	27
	100%	100%	4%	100%

Note: Columns may not add to 100 percent due to rounding

*1975, Under NEW LAW with NO EPR-Induced participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent Tax
Definitions of Income and Filing Units
Allocation of Food Stamps by tax unit size.

Table 4-4 displays the distribution of household adjusted gross income. Close to 60 percent of all recoupment households had an AGI of less than $10,000. While only 7.4 percent of all food stamp households would have an AGI in excess of $10,000, slightly more than 40 percent of recoupment households would exceed that income amount. The incidence figures indicate that as income rises, so does the probability that a household will be subject to recoupment. For example, two out of every five households which received food stamp benefits and had an AGI in excess of $17,500 would be subject to recoupment.

Table 4-5 shows the distribution of recoupment tax units by the percentage of income by which they exceed the threshold. More than two-thirds of the

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Table 4-4

Characteristics of Recoupment Households*:
Annual Adjusted Gross Income**

Annual AGI	All Food Stamp Households distribution	Recoupment distribution	Household incidence
<$5000	66.1%	0%	0%
5000 - 6999	15.6	28.4	7.8
7000 - 9999	11.0	30.9	12.1
<10,000	92.7	59.3	19.9
10,000 - 14,999	5.9	24.2	17.8
15,000 - 17,499	.9	9.6	46.6
17,500 +	.6	6.1	40.7
	100%	100%	4%

Note: Columns may not add to 100 percent due to rounding.
*1975 Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Defintions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size.
**AGI as defined for tax purposes

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Table 4-5 Characteristics of Recoupment Tax Units: Percent AGI in Excess of Threshold

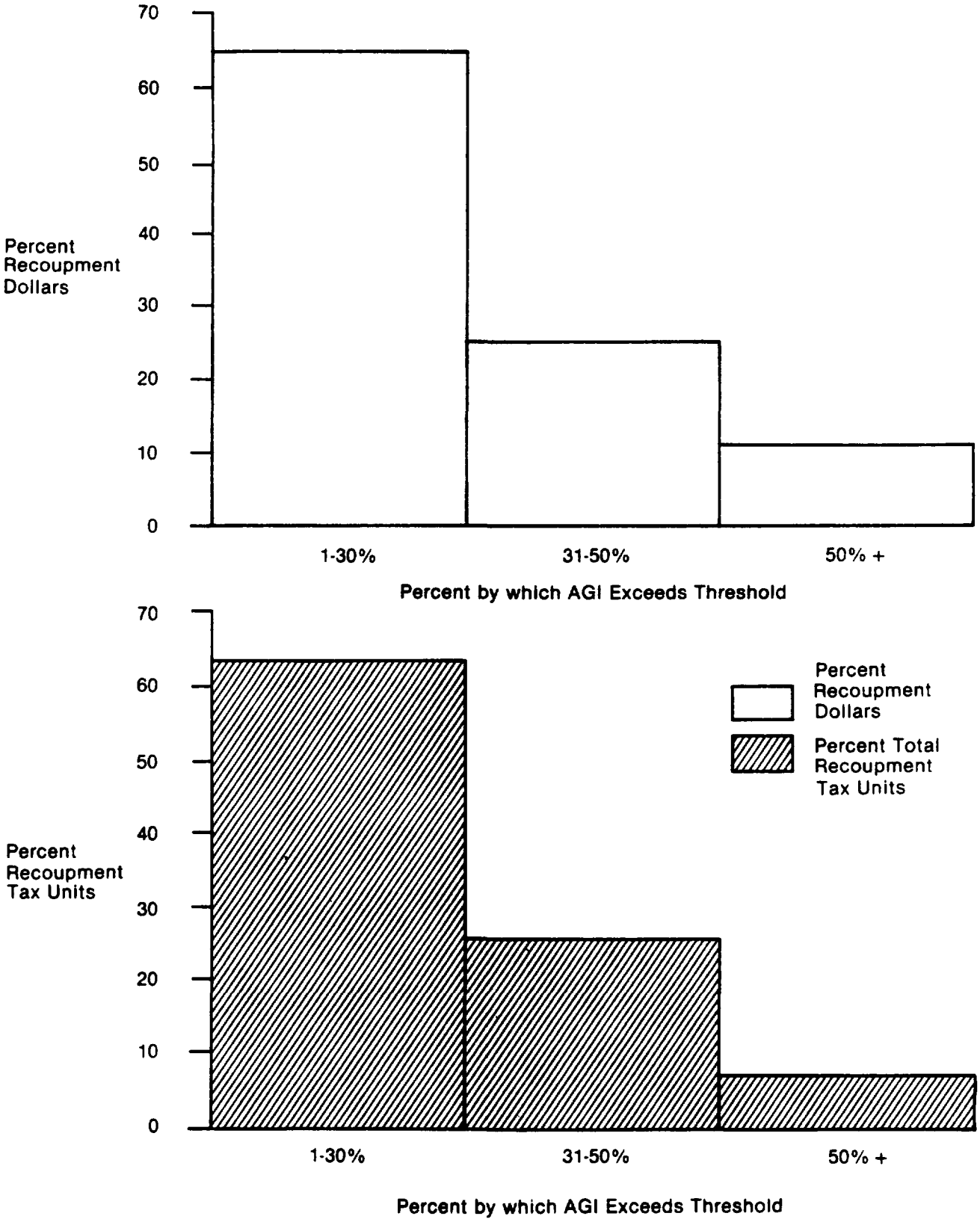

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Table 4-6

Characteristics of Recoupment Households*:
Amounts of Recoupment Liability

Recoupment Liabilities	Recoupment Households distribution	Percent of all Households	Recoupment Amounts (Per Household) distribution
$ 1 - 100	49%	2.1%	7%
101 - 200	31	1.3	12
201 - 300	7	.3	29
301 - 400	4	.2	11
401 - 500	3	.1	9
501 - 600	4	.2	9
600+	3	.1	24
	100%	4.3	100%

*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size.

(The distributions of liabilities based on tax units are virtually identical.) Thus, the larger recoupment liabilities, and the greatest proportion of all assessed recoupment amounts, would be concentrated on a relatively small proportion of recoupment households. Although this may allow the IRS to concentrate its collection efforts in a cost-effective manner, it also means that the burden of compliance would be focussed on about 73,000 households.

The households with recoupment obligations exceeding $200 are a distinctive subset of all recoupment households. They are:

- More likely to be comprised of two parent families with children (60 percent);
- More likely to be larger than the average recoupment household--50 percent have four or more members while only 31 percent of all recoupment households are that size;
- More likely to have participated in the program for 12 months than the average recoupment household; and
- More likely to have an AGI that exceeds the threshold by 30 percent.

4.4 MONTHS OF PROGRAM PARTICIPATION

In earlier discussions of the potential of recoupment as a means of improving target efficiency, perhaps the strongest hypothesis about the characteristics of recoupment households was that they would have fluctuating incomes, high in some months, low in others. Because the program's poverty line income eligibility ceiling would preclude the participation

of households with constant monthly incomes in excess of the recoupment threshold (twice the poverty line), recoupment households would be expected to participate in some months (when they had low income) but not in others (when they had high income). Further, it would seem impossible to be eligible for food stamps in all twelve months and also be liable for recoupment: a household could not have an annual income that was both above and below the recoupment threshold.

The findings with respect to the months of participation of recoupment households are generally consistent with prior expectations. But the results are not without a disturbing element. Although more than three-quarters of all recoupment households would have received benefits during four or fewer months, 10 percent would have participated in all twelve months. Even more disturbing, these full year participants, who should not be a target for recoupment, would account for a disproportionate share of all recoupment liabilities.

Table 4-7 shows the distribution and incidence of recoupment households by months of participation. Clearly, most of the affected households are short-term participants. Nearly a third of all recoupment households are short-term participants. Nearly a third of all recoupment households would have participated for only one month, nearly two-thirds would have participated in no more than three months, and more than three-quarters in no more than six months. The incidence figures show similar results. Short-term participants are much more likely to be liable for recoupment than long-term participants. More than one in five households that

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Table 4-7

Characteristics of Recoupment Households*:
Months of Participation in the Food Stamp Program

Months of Participation	All Food Stamp Households	Recoupment Households		Recoupment Amounts
	distribution	distribution	incidence	distribution
1	6%	32%	23%	14%
2	7	20	12	17
3	9	11	5	11
4	7	16	10	19
5	5	6	5	3
6	6	2	1	4
7	3	1	1	.5
8	3	1	2	.5
9	6	1	---	3
10	14	0	--	.5
11	2	1	2	1
12	32	10	1	27
	100%	100%	4%	100%

Note: Columns may not add to 100 percent due to rounding.
*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by tax unit size.

received benefits in only one month would be liable for recoupment, compared to a four percent incidence among all food stamp households. Participants in four or fewer months show a higher than average probability of recoupment liability, while participants in more than four months show a lower incidence.

The other side of the incidence figures is equally interesting. If 23 percent of one-month participants would be liable for recoupment, 77 percent would not be liable for recoupment. Further, almost 90 percent of all households that participate for four or fewer months would not be liable for recoupment. Thus, a surprisingly large portion of the households expected to be most susceptible to recoupment, in fact, would not incur any liability. This seems to indicate that even those households that receive benefits for only a few months are not particularly well off the rest of the year.

As might be expected, the distribution of total recoupment amounts by months of households participation is not as striking as the distribution of the number of households. The fewer the months of participation, the lower the total benefits paid out and the lower the potential recoupment liability. So although three-quarters of all recoupment households participate in four or fewer months, only about 60 percent of all recoupment liabilities are attributable to those households.

The most disturbing results are the estimates of recoupment liabilities for full year participants. Table 4-8 shows that 10 percent of all recoupment households would have received, legally, benefits in all

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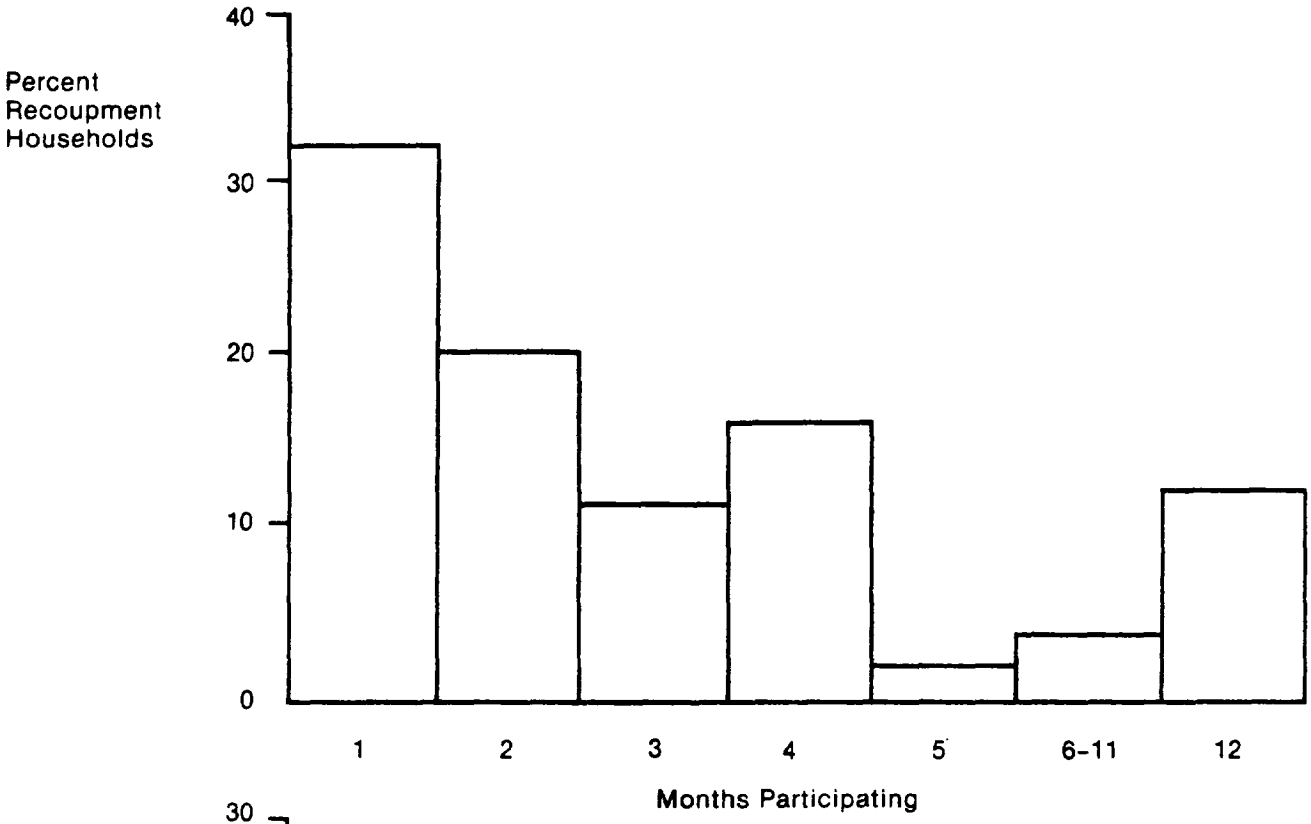
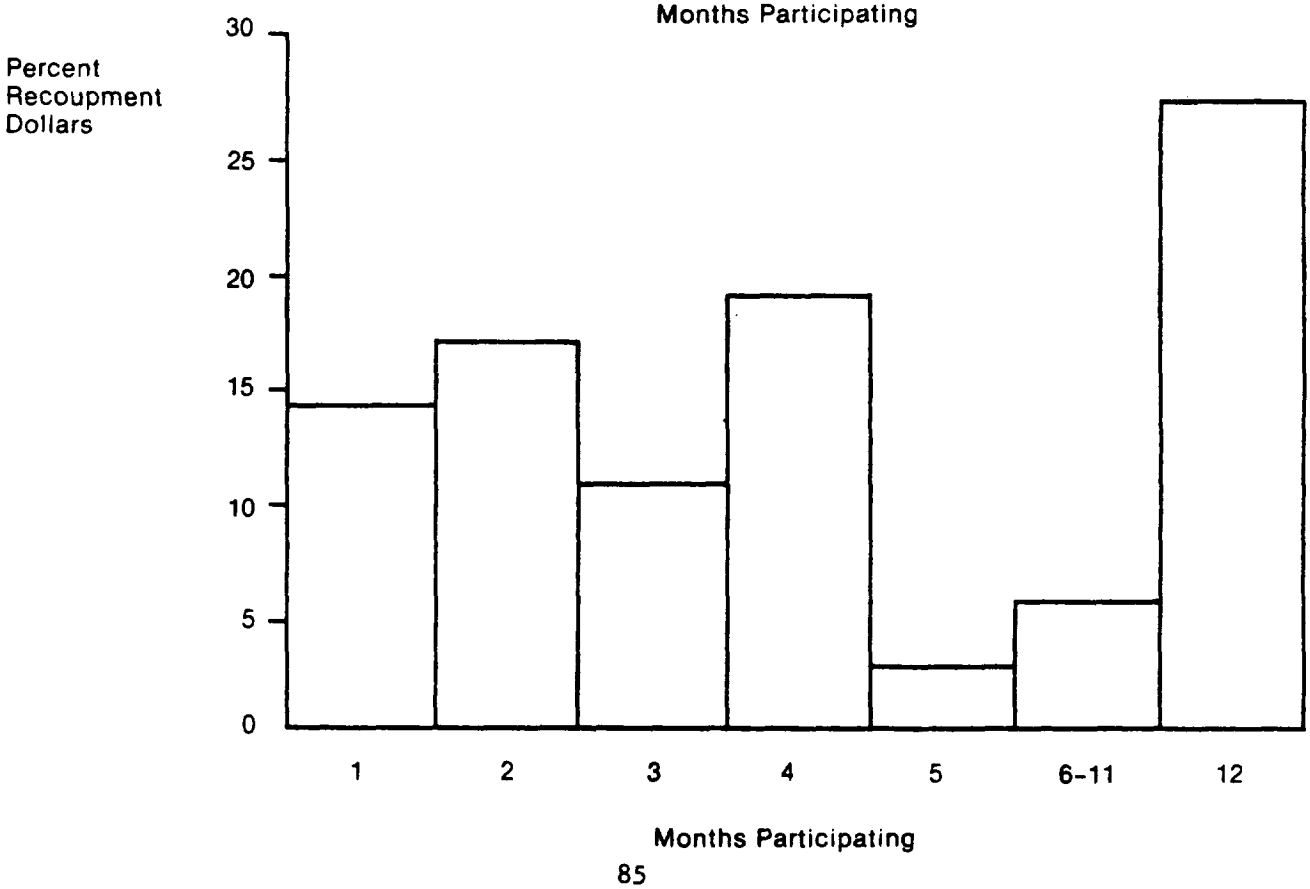
Table 4-8 Recoupment Households by Months Participation in Program and Recoupment Liability





twelve months of the year. These households comprise four percent of the full year participants, and they should not be liable for recoupment. As explained in Chapter 1, it is not possible for a household with annual AGI in excess of the recoupment threshold to be legally eligible for food stamps during the whole year. The cause of this apparent paradox is the use of the tax unit, instead of the household, as the unit of recoupment. This can occur when, for example, a family of five is comprised of two tax units including three and two persons, respectively. The household income is mainly concentrated in the first tax unit. Although the family is eligible based on the household income for all 5 persons, the first tax unit is subject to recoupment based on the income for that size tax unit.

The liabilities incurred by these 12-month participants are large because they have received benefits for the entire year and because larger families, who receive more benefits, are more likely to have two or more tax units. This issue will be more fully discussed in Chapter 5, "Equity and Incentive Issues."

4.5 HOUSEHOLD COMPOSITION

Table 4-9 and 4-10 show the distribution and incidence of recoupment households with respect to household type and the age and sex of the primary earner. As the figures show, the overwhelming majority of recoupment households are comprised of either single individuals (44%)

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Table 4-9

Characteristics of Recoupment Households*:
Household Composition

Household** Composition	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amounts distribution
Single Individual	37%	44%	6%	30%
Single Individual with related or unrelated persons	6	3	3	7
Childless Couples	9	10	4	9
Single-parent Households	29	6	1	5
Two-parent Households	25	37	6	49
	100%	100%	4%	100%
Nuclear Families	83%	94%	5%	90%
Some Related Persons	9	2	1	6
Some Unrelated Persons	8	3	2	4
	100%	100%	4%	100%

*Under NEW LAW with NO EPR-Induced Participation
**Nuclear Families: Family comprise of single individual or mother and/or father with children
Some Related Persons: Nuclear family plus related persons only
Some unrelated persons: Family comprised of any of the above plus unrelated persons
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size

Table 4-10

Characteristics of Recoupment Households*:
Primary Earner

Sex	Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amounts distribution
Male	46%	76%	7%	80%
Female	54	24	2	20
	100%	100%	4%	100%
Age				
18	2%	--	--	--
18-44	58%	74%	5%	70%
45-64	21	26	5	30
65+	19	--	--	--
	100%	100%	4%	100%

*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent Tax
Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size.

or two-parent families (37%). For single individuals this proportion is about 20 percent higher than for food stamp households in general; however, two-parent households occur 50 percent more frequently among recoupment households than among all food stamp households and almost half of the total recoupment amount is derived from two-parent families. Single-parent households, on the other hand, comprise a much smaller part of recoupment households (6%) than of food stamp households in general (29%). This seems reasonable, since single-parent households are more likely to have steady transfer income (which is not counted for recoupment), and two-parent households are more likely to have irregular earned income.

Similarly, the primary earner in a recoupment household is much more likely to be male than female. Although, in general, food stamp households are about evenly split with regard to the sex of the primary earner, 76 percent of recoupment households would be headed by a man. Table 4-10 also shows that the primary earner in a recoupment household is likely to be between 18 and 44 years old. However, in terms of incidence in the food stamp population, the head of a recoupment household is as likely to be a male aged 18-44 as a male aged 45-64. Of particular note, although one in five food stamp households is headed by an aged person, virtually none of these households would be subject to recoupment. These patterns are also consistent with expectations. Households headed by an aged person or a single woman are more likely to receive SSI or AFDC, which is not counted for recoupment; households headed by young men are more likely to have

irregular earnings and are therefore much more likely to incur a recoupment liability.

4.6 SOURCES OF HOUSEHOLD INCOME

As strongly suggested by the evidence presented thus far, recoupment households would seem likely to obtain their incomes primarily from earnings, which is the most variable source of income. Table 4-11 presents estimates that confirm this hypothesis.

Earnings are the sole source of income (other than food stamps) for 30 percent of all recoupment households, and earnings are an important (if not sole) source for another two-thirds of these households. A few of those who have earnings plus other income receive some sort of cash assistance, but most are in the category of "earnings and other income," with the other income likely to be unemployment compensation. Thus, 30 percent of all recoupment households have earnings only, and over 90 percent probably have earnings and unemployment compensation only. This evidence supports the conclusion that recoupment would primarily affect those households with irregular earnings.

4.7 EMPLOYMENT PATTERNS

The characteristics of recoupment households with respect to the employment pattern of the primary earner are also consistent with the hypothesis that recoupment households would tend to have irregular earnings. Interpretation of these estimates, which are presented in Table 4-12, is a bit more complex. In general, the primary earner in recoupment

Table 4-11

Characteristics of Recoupment Households*:
Sources of Income

Source of Income	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amounts distribution
Earnings only	12%	30%	11%	30%
Earnings and AFDC/GA or SSI	10	2	1	6
Earnings and other unearned	25	66	11	62
AFDC/GA or SSI only	15	--	--	--
AFDC/GA or SSI and other unearned	12	--	--	--
Other income combinations	26	2	1	3
	100%	100%	4%	100%

Note: Columns may not add to 100 percent due to rounding.
*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent Tax
Definitions of Income and Filing Units
Allocation of Food Stamps by tax unit size

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Table 4-12

Characteristics of Recoupment Households*:
Unemployment of Primary Earner

Months Unemployed	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amounts distribution
0-3	17%	29%	13%	35%
4-6	19	51	12	43
7-9	14	16	5	15
10-11	11	4	2	6
12	39	--	--	--
	100%	100%	4%	100%

Note: Columns may not add to 100 percent due to rounding
*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold at 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size

households would tend to be employed for much of the year, but unemployed for at least part of the year. Almost 80 percent would be employed at least six months, and most would have at least a one month spell of unemployment. If the primary earner were not employed most of the year, AGI would probably not be high enough to exceed the recoupment threshold. And if he or she were not unemployed at some time during the year, the household would probably not be eligible for any food stamps to recoup.

Table 4-13 provides information on the presence of "secondary" workers in recoupment households.* The estimates show that 18 percent of recoupment households would have secondary earners and that they account for 27 percent of the recoupment amount. Households with secondary earners are somewhat more likely to be affected by recoupment.

This evidence indicates that the employment patterns of primary and secondary workers would affect total recoupment liabilities. Both spells of unemployment and the entry/exit of secondary workers from the labor force generate uneven annual income patterns that can make households eligible for food stamps in some months yet subject to recoupment based on their total annual income. In periods of higher unemployment or recession, the number of tax units subject to recoupment and the total mount of recoupment liabilities will be greater than in periods of tighter labor markets. Further, it may be possible for families to adjust their employment patterns--by increasing a period

* The terms primary and secondary are defined and used strictly on the basis of relative earnings within the households. The person with the highest annual earnings is designated the primary earner, regardless of sex or self-classification; all other earners are designated as secondary.

Table 4-13

Characteristics of Recoupment Households*:
Number of Secondary Earners

Number Secondary Earners	All Food Stamp Households distribution	Recoupment Households distribution	Recoupment Households incidence	Recoupment Amounts distribution
0	85%	82%	4%	73%
1	13	17	6	26
2	2	1	3	1
3+	--	--	-	--
	100%	100%	4%	100%

*1975, Under NEW LAW with NO EPR-Induced Participation
Basic Jeffords Plan: Threshold 2.0 times poverty level
Recoupment Rate at 100 percent
Tax Definitions of Income and Filing Units
Allocation of Food Stamps by Tax Unit Size

of unemployment for a few weeks or delaying the entry of a secondary worker into the labor force--and avoid recoupment by keeping their annual income just under the recoupment threshold. The potential problem of work disincentives created by a recoupment policy will be discussed further in the next chapter.

4.8 THE CHARACTERISTICS OF RECOUPMENT HOUSEHOLDS: A PROFILE

In general, recoupment households would be a distinctive subset of all food stamp households. They would be similar to the average food stamp household only with respect to region of residence. Recoupment households are significantly different with respect to total income and source of income, age and sex of primary earner, employment patterns of primary and secondary earners, and months of participation in the program.

In profile, the typical recoupment household would have the following characteristics:

- The household is a single person or a two-parent family with children.
- Annual income is between 2.0 and 2.5 times the poverty level for that size household.
- Earnings are a primary source of income.
- The primary earner is a man, between ages 18 and 44, who is employed for at least six months but unemployed for at least one month.
- There is no secondary earner.
- The household participates in the Food Stamp Program fewer than three months.
- The recoupment liability is less than $200.

The following case studies are illustrative of two typical recoupment households: (1) a four person nuclear family, with fluctuating earnings and a secondary earner and (2) a household that participates for one month. These households were identified as recoupment households in the simulation and the descriptions are taken from actual case records in the SIE data base.

> The household is comprised of a father 35, a mother 31, their son 12 and daughter 7. Both parents are high school graduates. The father works 60 hours a week for seven months as a construction worker and earned $8905 for the year. He received $1502 in unemployment compensation. His wife worked part-time (20 hours a week) as a service worker and earned $2045. The family received food stamp benefits for four months totalling $106. The combined earnings of the family, $10,950 exceeded the recoupment threshold by $150 or less than 10 percent. As a consequence, when the family filed its joint tax return, the full amount of benefits, $106, would be recouped.
>
> The husband, 63, is a laborer in a manufacturing firm and earned $9900. He was unemployed for seven weeks and received $188 in unemployment insurance. His wife, a housewife, is also in her sixties. They received food stamp benefits of $53.00 for one month of the year. Their earned income exceeded the threshold set for a family of two by $2,620 or 36 percent over the threshold. The full amount of benefits received would be recouped.

These characteristics of typical recoupment households are not surprising. But the profile does not reveal some problematic variations in the effects of recoupment. The profile does not show that only 20 percent of the recoupment household would bear 82 percent of the liabilities. It does not show that a substantial minority of recoupment households would legally receive benefits throughout the year and yet would incur a recoupment liability because of the translation of filing units from the Food Stamp Program to the tax system. It does not show that more households with annual incomes in excess of the threshold would not

incur a recoupment liability because of another gliche in translation, the differences in income definitions between the two systems. And it does not show that many households would face penalties for increased work effort, penalties that might ultimately result in lower earnings, lower recoupment liabilities, and even higher food stamp benefits. We will turn to some of these problems in Chapter 5.

The characteristics of typical recoupment households can also provide a clue as to the possible variability in total recoupment amounts over time. Since in the majority of cases recoupment occurs because of uneven earnings patterns, total savings from recoupment may well be linked to macro-economic conditions. For some households, uneven earnings can occur consistently each year because of the nature of a person's job (e.g., a construction worker), for other households, uneven earnings will be a function of economic downturns. To the extent that the incidence of typical recoupment households in the total food stamp population decreases, it can be hypothesized that the number of households subject to recoupment and the total amount of recoupment liability will be reduced. While this hypothesis cannot be formally tested with the data currently available, a comparison of food stamp participant characteristics in 1975 (when unemployment was 8.5 percent) and 1978 (when unemployment was 6.0 percent) indicates that the characteristics of the food stamp population vary with the unemployment rate and that the incidence of typical recoupment households decreases with a decrease in the rate. For example, there was

- A decrease in male headed households from 35.6 percent in 1975 to 31.1 percent in 1978;
- An increase in the incidence of non-working household heads, from 77% in 1975 to 80% in 1978; and
- An increase in the number of households with no earned income, from 77% in 1975 to 81.6% in 1978.

As a result of changing food stamp population characteristics due to macro-economic conditions, it can be expected that the amount of total benefits subject to recoupment can vary year to year.

CHAPTER 5

EQUITY AND INCENTIVE ISSUES

This chapter explores some of the effects of recoupment on food stamp recipients. The effects can be divided into two sets of issues: those relating to equity and those relating to potential behavioral changes on the part of recipients because of changed incentives. In the first section of this chapter the discussion reviews the equity issues that arise because of the divergence in two important definitions employed by the Food Stamp Program and the tax system -- the definition of income and the definition of the filing unit. The discussion then turns to the implications of using a calendar year accounting system and the deferral and penalty provision of the recoupment proposal. The second section of the chapter describes the incentive effects of recoupment such as the potential for more honest reporting and hence program savings as well as the potential for negative effects including reduced work effort, altered tax compliance and deterrence to program participation.

5.1 EQUITY ISSUES

5.1.1 Definition of Income. The Food Stamp Program uses a more inclusive definition of income than the tax system. Because taxable adjusted gross income does not include all income considered by the program--particularly unemployment compensation, social security, and welfare--some households with total annual incomes in excess of twice the poverty line would not be subject to recoupment. Thus, higher income households that received unemployment compensation or welfare would be at an advantage relative to workers under a recoupment provision.

Also, because the recoupment threshold (at twice the poverty level) would be much higher than the program's monthly eligibility limits, there would still be an advantage to uneven income flows during the year. A family with steady income would not be eligible for food stamps if its income were higher than the poverty line; however, a family with irregular income could receive benefits, without incurring a recoupment liability, even if its income were as high as twice the poverty line on an annual basis.

5.1.2. The Incongruence Between Tax Units and Households. The intended targets of recoupment are food stamp households with annual income in excess of twice the poverty level (according to the size of each household); however, the actual targets would be tax units with annual incomes of twice the poverty level (according to the size of each tax unit). As explained elsewhere in this report, the food stamp definitions of household units and income are quite different from the definitions used by the IRS for income tax purposes. The differences mean that the households that would end up bearing the burden of recoupment in many cases would not be the households intended to bear that burden. Because the recoupment system would use tax definitions of income and filing units, many households with annual incomes in excess of twice the poverty line would not incur a recoupment liability. But many households with annual incomes below the appropriate threshold--households that were not intended to pay back their benefits--would in fact incur a recoupment liability.

A tax unit that files and is smaller than the household is likely to have a large portion of the household's earned income; yet because it has fewer members, the tax unit's income would be judged against a lower recoupment threshold than would apply to the household as a whole. A household with income below the threshold for the household size could have income above the threshold for the tax unit size. Although it has been estimated that for between 66-75 percent of all food stamp households, the tax unit is in fact the same entity as the household, the discrepancy in unit definition yields some disturbing results in the estimation of recoupment liabilities. The estimates show that one of every ten recoupment households would be legally entitled to benefits throughout the year, yet would have to pay a portion of their benefits back because they are comprised of two or more tax units. And these households would bear a disproportionate share of the recoupment burden, over one-quarter of all recoupment liabilities.

The following case study illustrates how a household that participates in the program for twelve months could be subject to recoupment.

> The household contains four members, so the relevant recoupment threshold for the household is $14,300.* Since the household's annual income, including transfer income, is $11,000, it should not be subject to recoupment. However, there is an unrelated individual in the household who has annual earnings of $8,000. The recoupment threshold for a single person is $7,340. Thus when the person files, a food stamp recoupment liability will be assessed. The household had been entitled to $33 of food stamp benefits a month or $396 in benefits over the year. If a "size of tax unit" allocation scheme were in effect, the tax filer would

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* This example employs poverty lines and benefits as of July 1, 1979.

have $99 of benefits allocated to him and the assessed liability would equal $99. If the food stamp benefits were allocated by percent income contribution to the household, the tax filer would be assessed for $289 (or 73 percent of annual benefits).

These figures and the illustration suggest that using the tax system, and its definition of income and filing units, can create inequities and decrease the target efficiency of the program by placing burdens on households that are not intended to be the target of the recoupment plan.

5.1.3. Collections, Referrals, and Waivers. The deferral provisions of the Jeffords plan raise another set of equity issues. All recoupment liabilities that could be offset against refunds otherwise due from overwithholding would be collected in that manner. The remainder, the liabilities that would have to be collected directly from tax units, could be deferred or even waived in certain cases. Any tax unit in a household receiving food stamps in the tax collection month would have that part of its liability not offset by a refund deferred until the household was no longer receiving benefits. Similarly, a tax unit that could demonstrate "hardship" could have the non-offset part of its liability waived.

These provisions all have the effect of giving an advantage to certain households under relatively arbitrary conditions. The deferral for recipient households is intended to avoid the situation of giving with one hand and taking away with the other. And the hardship waivers are intended to avoid the imposition of an additional burden on already

hardpressed households, perhaps even some who are poor enough to receive benefits but who choose not to participate. Both provisions seem reasonable in theory. But the deferral or waiver would apply only to the part of the liability that could not be offset by a refund. What these provisions seem to ignore is that the other part of the liability, the part offset from a "refund," is just as real as a cash collection. The refund is not a bonus or a benefit from the government; it is the result of withholding more from a taxpayer's earnings than he ends up owing in taxes. Moreover, it is an arbitrary amount, determined solely by withholding patterns and other circumstances irrelevant to recoupment. Serious inequities may occur when a taxpayer's immediate obligation, and perhaps ultimately his or her total recoupment liability, depends on a process as imprecise as income withholding.

These provisions would introduce an element of arbitrary chance into the process of tax assessment. Taxpayers in the same general circumstances may end up with substantially different liabilities, depending on withholding patterns over the year and food stamp status in a particular month. This is something that the IRS tries to avoid, by treating all taxpayers and all tax obligations by the same rules. Indeed, the same taxpayers who get a deferral or waiver of recoupment liabilities may have a separate income tax obligation due to IRS. As will be discussed in Chapter 7, the IRS does not normally distinguish among tax obligations from different sources. This raises another equity issue in that normal tax obligations are subject to penalties and interest, while the recoupment obligation would not be. As a consequence, two tax units identical

in terms of ability to pay debts would be treated differently by the IRS because of differences in the type of obligation owed.

The hardship provision is also problematic in that it would require the establishment of a separate needs (or hardship) determination from that already in effect in the Food Stamp Program. Accepting continued participation in the program as an indication of continued need is a rational basis for deferral which would not conflict with existing standards. (It would, however, make liability under recoupment open-ended for these recipients, and necessitate substantial tracking.) Determination of hardship, however, would require a set of highly specific regulations to ensure equitable treatment of recoupment tax units.

Another issue of concern about the hardship provision is the fact that it would be a point-in-time determination. One of the main purposes of the recoupment plan is to promote equity on a long-term, or yearly, basis, by equalizing the benefits of those who have uneven income flows with those who receive income evenly over the year. The point-in-time hardship determination would give an advantage to those who can adjust their income flows so that their income is low at the time when hardship is determined. It would, in effect, run counter to the recoupment provision, which lengthens the accounting period for determining eligibility and benefits by considering households' financial situation for the entire year.

5.1.4. Allocation Methods. The method selected for allocating benefits among members of a household can also raise equity issues. With the exception of the per capita scheme, all allocation plans raise the possibility of making a tax filer in the recoupment tax unit liable for the food stamp benefits of a person for whom the filer is not legally responsible or cannot claim as a dependent. For example, a household member may be the dependent of a person outside of the household, as when a child lives with a relative but is financially supported by and is the legal dependent of a parent who lives someplace else. The parent could gain the "benefit" of claiming a deduction for the child without assuming any liability for the child's food stamp benefits. Under a "by contribution to household maintenance" allocation method the primary contributor to maintenance of the relative's and child's household would be held liable for the child's benefits, without having any other legal responsibility for the child.

5.1.5 Calendar Year Accounting. Whenever liability for a tax, or eligibility for a benefit, is determined according to income received during any fixed calendar period--i.e., a month--it will differ from what it would be if income were considered over a longer or shorter period. Thus, recoupment was designed to reduce the long-term inequities (and target inefficiencies) caused by the Food Stamp Program's monthly accounting period. By relating the (net) receipt of benefits, at least somewhat, to annual income, some of the "advantages" of uneven income would be reduced. But liability for recoupment, though based on income received over a longer period

of time, would still be determined on a fixed calendar period; and inequities caused by uneven receipt of income would still exist.

For example, a household receives benefits from January through June of one calendar year would be treated differently from a household that receives benefits for an equivalent six months, but spread over two calendar years, say from October through March. It is likely that the family receiving six months of benefits in one calendar year would not be liable for recoupment, based on income received in the other six months. The second household, however, would have had nine months of income each calendar year, and might have received enough income to be liable for recoupment in one or both of those years.

Households with equal incomes over a two-year period could be legally entitled to substantially different benefits, after recoupment, depending on the pattern of income receipts. For example, a household with no income in one calendar year and high income the next could receive full benefits in the first year without incurring any recoupment liability, despite a relatively high average income over the two year period. Another household with the same income over the two years, and also with a full twelve months of no income and full benefits, might have to pay all of its benefits back through recoupment if the twelve months of unemployment happened to fall in both calendar years. Thus, lengthening a fixed accounting period could reduce long-term inequities between households who participate for equal periods at different times, perhaps

substantially; but so long as the accounting period is fixed, some inequities will remain.

5.2 INCENTIVE ISSUES

In addition to raising issues of equity, the recoupment provision, as proposed, may affect recipient behavior in unintended and undesirable ways. Tax compliance, program participation, and incentive to work may all be altered due to the imposition of a recoupment obligation; changes of this sort must be carefully considered when evaluating potential savings from a recoupment plan.

5.2.1. Work Effort. Often the most vocal and visible concerns about changes in tax and transfer programs center around the effects such changes might have on the work effort of those affected. This is especially true of welfare programs, but as these programs become more closely tied to the tax system, it is also true of changes in tax laws. Recoupment involves both systems, and once again work incentives are a serious concern.

The imposition of any new "tax" might be expected to reduce work incentive, and concern is heightened when the tax is imposed at a high rate, even if it applies over a relatively narrow range of income. The dollar-for-dollar offset of income imposed on recoupment tax units by the Jeffords proposal would have created a marginal tax rate of 100 percent on earnings in the range just above the threshold, extending to higher incomes until all food stamp benefits were recovered. (A marginal tax rate is the rate of tax or income offset on an additional dollar of earnings.) In addition, the worker would have to pay income

and payroll taxes on the same earnings, increasing the marginal tax rate to up to 125 percent. And if the worker happened to be receiving food stamps or other welfare benefits at the time, benefit reductions due to increased earnings would add significantly to his or her effective marginal tax rates. Together, these various "taxes" could combine to substantially reduce net income as a result of increased earnings.

> Consider an unemployed worker with a wife and two children. He loses his job in late August and starts receiving unemployment compensation ($300 per month) and food stamps ($146 per month) in September. His annual earnings through August were almost twice the poverty line, and the welfare office had informed him that he might have to pay back his food stamp benefits if he got a job again before the end of the year.
>
> In early November he locates a full time job at $3.50 per hour. If he takes the job, the worker will earn $616 gross per month. Income and payroll taxes will take $123 and $37 per month, respectively, leaving him with $456 to take home. He will lose his unemployment compensation and his food stamps will be reduced to $45 per month, so he will have a net monthly income of only $55 higher than before. In addition, if he takes the job, his annual AGI will be high enough to trigger recoupment of all food stamp benefits received during the year, an amount equal to $382. By taking the job for the last two months of the calendar year then, he will earn $1232 gross income--and his family will end up with $272 less to live on. It would not be surprising if he decides not to pursue the job at that time.

A similar example could be cited for a family with a fully employed primary earner and a secondary earner deciding whether to take a part-time job. Clearly, the additional earnings of the secondary earner would be partially offset if those earnings would cause the family to incur a recoupment liability. The recoupment plan would cause marginal tax rates to substantially exceed 100 percent over some income ranges and, thus, could pose serious work disincentives, particularly at the end of the calendar year, at the same time that demand for part-time

labor increased. This is particularly true for households with secondary earners who would not work unless the effort provided additional income to the household.

Despite the large expenditure on income maintenance experiments to estimate the labor supply effects of income assistance programs with various marginal tax rates, there is little evidence that can illuminate the potential effects of a recoupment plan with these parameters. That is not to criticize the experiments or the designers of the experiments. No one ever thought it relevant to test a plan with marginal tax rates in excess of 100 percent, since such a plan would seem to be inherently unfair as well as unwise. Nor is there much other evidence that would seem helpful. Indeed, in its estimates of the costs of welfare reform options, HEW assumes that marginal tax rates at 100 percent or more would cause the normal worker to withdraw from market work. Very high marginal tax rates would only apply up to the household's total recoupment liability, and, for most households, this is a relatively narrow income range. For the average recoupment tax unit the high marginal tax rates would extend only $165 above the threshold (the average recoupment liability). Fewer than 9.6 percent of recoupment units face such rates over a $500 range, and less than one percent for over $1000. (See Table 4-5.) But average tax rates can be just as important when an unemployed worker is deciding whether or not to take a job; and as the example above demonstrates, a couple of months' work at a low-paying job can result in little if any net gain after taxes, benefit reductions, and recoupment.

Perhaps the most useful evidence that can be presented are some of the estimates discussed in Chapter 4. Of particular importance are the tax units whose AGI is in the income range just above the threshold, the households with primary earners who are unemployed during part of the year, and the households with more than one earner. These are the households that are most likely to be affected by the penalties for work effort imposed by the Jeffords plan.

As was discussed in Chapter 4, more than half of all recoupment households have AGI in the range within 10 percent above the recoupment threshold. The simulation model assumes that no one changes his or her work effort as a result of recoupment, but these figures show that a sizable proportion could reduce work effort without substantially reducing disposable income, because the decreased earnings could be offset by lower taxes and recoupment liabilities. Not only do many recoupment households have the incentive to reduce work effort; they also have employment patterns that would facilitate such reductions. Table 4-2 shows that all of the primary earners in recoupment households would be unemployed for at least one month in the year. Although a full-year worker might only adjust his work effort through reduced overtime or moonlighting, a worker who is out of a job for part of the year can more easily extend a period of unemployment, especially if he expected that an extra month's earnings would go entirely to pay back food stamp benefits. Households with secondary earners can also control work effort with relatively low risk to earnings security, and they might be expected to respond to the

work penalties imposed by the recoupment plan. Table 4-3 shows that 18 percent of all recoupment households have multiple earners.

In addition, as mentioned in 5.1.1, a family with irregular income could receive benefits, without incurring a recoupment liability, even if its income were as high as twice the poverty line. There may be incentive to vary the receipt of income, for those persons such as the self-employed and farmers who have this flexibility, in order to avoid a recoupment liability. Thus, the high marginal tax rates implicit in the Jeffords plan should warrant serious concern. More than half of the recoupment households would be in the income ranges that present the most visible penalties for work effort; and a majority of recoupment households seem to have employment patterns that facilitate adjustments of earnings on the margin.

As explained in Chapter 3, a lower recoupment rate could do much to mitigate the problem of work disincentive, without significantly reducing recoupment amounts. While it is relatively "costly" to raise the threshold and thereby reduce the number of households subjected to work disincentive created by recoupment, it is relatively inexpensive to cut the recoupment rate and thereby reduce the inequities and work penalties implicit in a 100 percent marginal tax rate.

Table 3-9 shows that the recoupment rate could be cut in half, to 50 percent, while reducing total liabilities only by 7 percent. At a 50 percent rate, fewer tax units would face marginal tax rates in excess of 100 percent; but high rates would still prevail, reaching at least 75 percent for households in the phase-in range. Marginal tax rates would be higher for those households that would face other

benefit reductions as well. Based on extrapolation of simulated results, it appears that the recoupment rate could be reduced much lower than 50 percent before recoupment liabilities would begin to fall rapidly. It appears that the rate could be lowered to 25 percent, for example, without reducing total liabilities more than 16 percent (relative to the Jeffords plan).

5.2.2. Tax Compliance. Recoupment could also alter behavioral incentives with respect to compliance with income tax laws. As noted in the previous discussion, the net recoupment liability could depend on withholding and the availability of a refund to cover the liability. If taxpayers believed, correctly or not, that a net recoupment liability in excess of income withheld would be deferred or waived, they might begin to change their withholding patterns, thereby reducing the amount that could be offset from refunds. This would probably increase the number of deferrals and waivers, and it would surely increase the necessary collection effort and reduce the total amount of recovered benefits.

Compliance with the recoupment provision requires that a tax form be filed, and especially among the lower-income population, the addition of another tax liability might lead to a higher incidence of non-filing. Even assuming no changes in withholding, only 48 percent of recoupment liabilities would be captured from refunds. For 149,000 tax units, 41 percent of all recoupment units, additional payment would have to be made to cover the remainder of the liability. In such cases, many lower income tax units might decide not even to file a tax return,

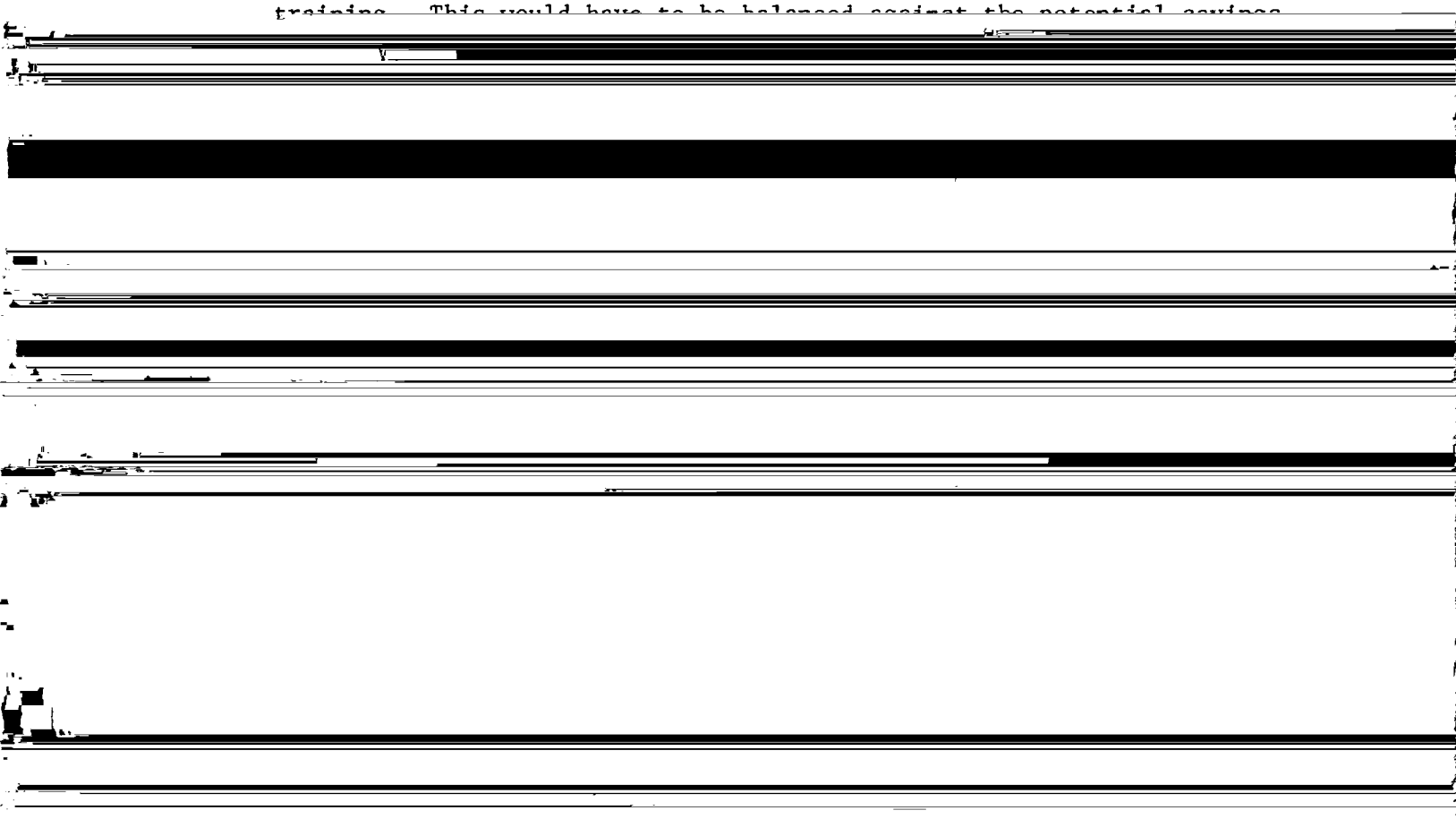
to let the government keep what it has and "call it even." Although statistics on such illegal behavior are scarce and unreliable, non-filing is already a concern, and the addition of a substantive recoupment liability may only increase incentives to violate the law.

5.2.3. Program Participation. The institution of a recoupment plan may, in itself, affect program costs and target efficiency through its impact on food stamp participation.

First, those who expected to have relatively high annual incomes, and, therefore, to incur a liability for recoupment, might decide not to complete an application for benefits. This would be consistent with the intent of the proposal, since these households would be eligible only for a temporary "loan" and they would be free to decide whether or not they want such a loan. On the other hand, some needy households might choose not to apply because of their unwillingness to risk a potentially large obligation to the IRS; yet in the end they might have been eligible for needed assistance, with no liability for recoupment. The deterrence of these households would be inconsistent with other program objectives, particularly with respect to being responsive to current need. Although recoupment would surely discourage participation to some extent, there are no data or behavioral evidence that would suggest the actual impact it would have on the program's costs and caseload.

Ironically, a recoupment provision might be a deterrent to leaving the program as well as a deterrent to applying for benefits. As explained above, a worker and his family would actually suffer a decline in total

income if he accepted a job. Recoupment would provide an incentive for him to decline the job and continue to receive unemployment compensation and food stamps instead. It is ironic that this could end up costing the public more than it would save. If because of the burden of a lump sum recoupment liability workers decided to stay on food stamps and unemployment compensation, the government would pay out extra benefits from those programs. In addition, workers may forfeit valuable experience and training. This would have to be balanced against the potential savings



5.2.4 Income Reporting. Another issue is whether a recoupment plan will decrease fraud in the Food Stamp Program. The fact that recipients will know as soon as they begin receiving benefits that some form of link with the IRS is possible may deter some nonreporting or underreporting of income to food stamp caseworkers. In addition, if recipients do conceal income from food stamp caseworkers, but report their income and benefits accurately to the IRS, some or all of their benefits may be recovered if the tax unit is subject to recoupment.

In addition, no penalty would result from fraud detected by recoupment. Since the IRS would not know a household's income as reported to the food stamp office, it could not know if a tax unit subject to recoupment had committed fraud. As a result, the household would not be penalized for committing fraud, beyond paying back some or all of the stamps it has received.

Recoupment is also unable to be used as a "front-end" check--to verify household's earnings before they receive stamps.

The impact of recoupment on fraud would be lessened by a provision of P.L. 96-58 requiring all household members to provide social security numbers as a condition of eligibility, and by other provisions pending before Congress that would provide State agencies access to Social Security wage records and to State employment records. These provisions would enable States to check household earnings on the "front-end" when households first apply. These checks can cover a broad range of households, not just those with incomes over twice the poverty line. In addition, those detected for fraud in this manner will be known--and can be disqualified for food stamps or prosecuted. A penalty would ensue.

If such procedures are utilized, it is likely that any additional impact of recoupment on detecting fraud will be small.

To the degree that additional households who have fraudulently reported income to food stamp offices are subject to recoupment, there may be some modest additional savings. On the other hand, to the degree that incomes are underreported to IRS (as IRS studies indicate does occur), recoupment savings could be overstated. These factors may largely balance each other.

CHAPTER 6

ADMINISTRATIVE ISSUES AND COSTS: STATE FOOD STAMP AGENCIES

The proposed recoupment system, although based on existing food stamp and Internal Revenue Service mechanisms, would complicate administrative procedures and increase administrative costs. The purpose of this chapter is to explain the state and local procedures that would be necessary to administer recoupment, examine the administrative issues, and present the additional costs.

The administration of recoupment would require several new functions of state and local food stamp agencies. The major functions would include:

- collecting sufficient income and household expenditure information at certification to apportion food stamp benefits each month among individual household supporters, depending on the allocation plan selected,
- maintaining a cumulative record of food stamp benefits actually received (determined by reconciling issuance records with coupon redemptions) by individual, tax unit, or household supporter, and
- preparing and sending out a W-2 form (referred to here as a food stamp W-X form) listing total annual food stamp benefits received, to every individual, tax unit, or household supporter on the program at any time during the year.

Although relatively few participants would be liable for repayment at the end of the year, there is no way to ascertain at the beginning of the year which participants these would be. Therefore, data must be collected and stored on all participants. These new responsibilities would require state and local agencies to expand their capabilities for handling the data, including the hiring of new staff and the expansion of existing computer

facilities.

To explain these new responsibilities and their consequent costs to food stamp agencies, this chapter is divided into six sections. The first section discusses the methodology followed in obtaining the data on present state administrative processes, changes in these processes required by a recoupment system and the costs of the changes. The second section analyzes the administrative advantages and disadvantages of the four alternative recoupment allocation schemes. The third section presents the recoupment process step by step, including its effect on the certification of households, its effect on states' information processing systems, the functions required at the end of the tax year, and the changes in states' data processing systems necessary to handle these additional tasks. The fourth section covers the process of implementing recoupment, including the time required. In the fifth section, costs to all state food stamp agencies are computed for each step of the recoupment process for three of the four allocation scheme alternatives. The last section discusses some of the administrative issues connected with recoupment that must be addressed before such a system can be implemented.

6.1. METHODOLOGY

For the study of the administrative feasibility and costs involved in implementing a nationwide recoupment system, it was important to examine State and local Food Stamp Program administrative structures and costs. Time constraints precluded the investigation of all state programs, so a limited group of states was chosen. A sample of states was selected covering a full range of characteristics--geographic, demographic,

type of systems design, error rate and level of expenditures. This was accomplished by organizing the states according to these aspects of operation and choosing those that represented a wide range of variation in these factors.

The first step in this process was to obtain the certification costs per household and overhead rates for each state from the Food Stamp Administrative Cost Report--Fiscal Year 1978. A plot of unit cost versus overhead rate produced a downward slope that appeared to demonstrate that those states with high costs for certification reported relatively low overhead expenses, and vice versa. The preliminary list of states included those at all points along this curve. This group was then checked against the other selection criteria. For example, after dividing all fifty states into quintiles with respect to unit cost of certification, a check was made to ensure that the state choices represented each of the five unit cost levels. Stratification of all states by error rate, caseload size, extent of computerization, and state versus county administration provided further checks on the representativeness of the selected states. Each state incorporated a different combination of characteristics.

With this preliminary list in hand, all Regional Food Stamp Program administrators were contacted. These officials provided information on the local administrative environments of the selected states and made recommendations for the inclusion of additional or exclusion of certain states. Local factors such as the fact that a state was in the process of coverting to a new or different computer system, or was undergoing another

administrative transition were the bases for altering the tentative list. Although not a statistically representative sample, the final list of states included those encompassing the full scope of administrative types and caseloads. The eleven states contacted included California, Colorado, Connecticut, Florida, Louisiana, Maryland, Massachusetts, Minnesota, Oklahoma, Washington, and West Virginia.

From the state program administrators, information was obtained on the impact of the various allocation plans on current Food Stamp Program operations and on coordination with the Internal Revenue Service. Systems analysts and data processing experts supplied information about present computer system capabilities and the adjustments necessary to administer recoupment. Time allocation studies provided data on the amount of time required to collect specific information and process individual forms. These were used to estimate the time needed for specific recoupment tasks. Food stamp financial managers assisted with cost estimates for changes in administrative procedures and systems operations, including the data on current salary and fringe benefit rates, and per unit costs for programming, data storage, case maintenance, and generation of food stamp W-X forms and the IRS master list.

Additional information was obtained from Federal Food Stamp Program officials and management studies conducted by Food and Nutrition Service staff. Social Security Administration personnel were consulted to outline the procedures and turnaround time for obtaining and validating Social Security numbers and to discuss the cost of enumeration and validation within the AFDC and other public assistance programs. Finally, contacts were made with persons

in the Department of Health, Education, and Welfare who also were involved in these processes, and who were able to discuss the impacts on record-keeping systems, caseworkers and recipients.

6.2. ALTERNATIVE ALLOCATION PLANS

As described in Chapter 2, four basic recoupment allocation schemes are considered in this report. They are per capita allocation, allocation by tax unit, the original Jeffords plan (pro rata allocation on an annual basis), and the modified Jeffords plan (pro rata allocation by certification period).

The per capita allocation scheme provides for the allocation of food stamp benefits equally to each recipient within each household. The advantage of this method of allocation is that recipients retain their own benefit amounts even if they leave or join a household over the course of the year. When tax returns are filed after the end of the year, the annual total benefit amount for each person in the tax filing unit is available on an individual food stamp W-X form. All members of the tax filing unit file their W-X forms together with their tax return. The tax unit is thus liable only for the benefits received by persons filing in that tax unit.

The major disadvantage of the per capita allocation plan is that, in order to produce individual forms, the food stamp agency must maintain a separate record for every member of the household, including children, thus increasing data storage needs substantially. In addition, each separate record must be identified by its own Social Security number, requiring food stamp eligibility workers to obtain and validate Social Security numbers for every member of the household. Another disadvantage of this allocation plan

is that it would possibly lead to some loss in the amount of recouped benefits. The IRS does not require that the Social Security numbers of any dependents be reported on tax returns. Therefore, the IRS has no way of ensuring that a tax return includes the food stamp benefits of all dependents in that tax filing unit. There are legitimate reasons why a food stamp tax unit may include persons who did not receive food stamp benefits. Without Social Security numbers for all persons in the tax unit, the IRS has no way of checking to see if those persons in the tax unit who report receiving no food stamp benefits are correctly doing so.

In a tax unit allocation plan, all members of the household are divided into tax units by the applicant at certification and benefits are allocated according to the relative sizes of those units. The advantage of this system is that the unit for which food stamp recoupment records are kept and the unit filing as a tax unit with the IRS are the same, at least in theory.

The disadvantage of this allocation plan is that, in fact, the recoupment tax unit and the actual tax unit filing with the IRS would frequently not be the same, leading to substantial losses in actual benefits recouped. Households applying for food stamps are unlikely to know with any certainty what the composition of their tax units will be at tax filing time, which is based on their household composition on December 31 of the tax year. Any major mismatch between food stamp tax unit reports and actual tax returns would result in losses of benefits recouped. If the persons identified in food stamp records as heads of tax units do not actually file tax returns,

all of the units' benefits are lost from the recoupment system and cannot be collected. If the food stamp agency attempts to keep up with changes in the households' expected tax units, administrative costs would increase, with no assurance that the accuracy of predictions of actual tax units would greatly increase.

The original Jeffords plan provided for the assignment of benefits to the person (or couple) who contributes at least eighty percent to the maintenance of the household during the entire year. If a single eighty percent contributor does not exist, then all household members' relative contributions are ascertained and benefits are prorated among each in proportion to their relative contributions. Because of household composition changes, moves, and income fluctuations that alter the makeup of a household and its members' relative financial contributions over the course of a year, it is difficult to determine at the time applicants come into the food stamp office what their total income and support costs will be for the entire year. A special interview or some similar device at the end of the year would be required to collect data on relative incomes and contributions toward household maintenance. A modified Jeffords plan has therefore been studied and costed out. The modified plan differs from Representative Jeffords' original plan in that it determines household relative contributions to maintenance in each certification period rather than at the end of the year.

The advantage of this type of allocation plan is that it assigns benefits and hence liability to the person or persons who are most responsible for the

financial support of the household.

The major disadvantage of both the original and modified Jeffords plans is the large increase in data collection required. One of the purposes of the Food Stamp Act of 1977 was to simplify administration of the Food Stamp Program. One way this was done was to limit the number of deductions from income a household was allowed to take in determining its eligibility for the program. Limiting the deductions meant limiting the amount of household expense information which had to be collected and verified. Either of the two Jeffords plans would reverse this change. Income and expense information would again have to be collected on every household. In fact, the amount of data required would exceed that needed under the pre-1977 Food Stamp Program. Before the 1977 Act, information was collected only on those expenses claimed by a household as deductions. Under either of the two Jeffords plans, data would be collected on all expenses incurred by the household. Another disadvantage of this plan is that the major household contributors may have to pay back food stamp benefits received by persons for whom they are not legally tax liable. In addition, a pro rata plan presents the problem of how to assign AFDC benefits, part of which are considered income to the children in the household.

6.3. THE RECOUPMENT PROCESS

Recoupment would require the expansion of the recordkeeping systems of most state food stamp agencies. As these recordkeeping systems now operate, they do not collect the kind of information needed for recoupment. The primary purpose of present state recordkeeping systems is to establish household eligibility for food stamps and to ensure that the household

receives the correct amount of benefits. In order for a recoupment system to work records must be kept of actual benefits received over a period of time. This type of information is not currently part of most states' recordkeeping systems.

The administrative parameters of each alternative recoupment plan vary in required effort, cost and level of information detail involved. Table 6-1 provides a concise guide to the additional data collection and storage responsibilities of the alternative recoupment plans as compared to current 1979 Food Stamp Program operations.

6.3.1. Certification. Under all of the recoupment allocation plans, additional data are required from applicants at certification. Often, the unit for whom these data are collected and stored is different than the food stamp household. The data must be processed and handled differently than is presently required and must be stored for a longer period of time. Recoupment would also require the production of several new forms and records at the end of every year.

As soon as a household comes to a food stamp office to apply for food stamp benefits, the first item of information requested is the name of the head of household. Current regulations allow each household to determine who will be designated as the head of the household. This practice may not be appropriate within the context of recoupment. Since the tax system assigns liability for recoupment amounts to the persons who are designated as the heads of tax units, it would be administratively easier if the same persons were also designated as heads of the food stamp household. A legal

Table 6-1

RECOUPMENT INFORMATION RECORD-KEEPING

	Current 1979 Food Stamp Program	Per Capita	Tax Unit	Modified Jeffords	Original Jeffords
Household Size	Records names and number of persons in household	No additional information needed	No additional information needed	No additional information needed	No additional information needed
Tax Unit Composition			Record head of each potential tax unit and size of each tax unit		
Record-keeping Format	Records all information by case, with case file number as identifier to access household data	In addition to regular food stamp case files, a new file must be established listing all recipients by Social Security Number, with each's case number and allotment (household divided by household size)	In addition to regular food stamp case files, a new file must be established listing all tax unit heads by Social Security Number, with each's case number and allotment (household allotment multiplied by tax unit size as proportion of household size)	In addition to regular food stamp case files, a new file must be established listing 80 percent or all household supporters by Social Security Number with each's case number and allotment (total household allotment or total household allotment multiplied by percent contribution to household maintenance, respectively)	In addition to regular food stamp case files, a new file must be established listing all potential household supporters by Social Security Number with each's case number for later addition and storage of data collected by end-of-year survey or no new file until end-of-year survey when all actual household supporters are identified and data is collected and stored for these persons.
Social Security Number	Optional for all recipients (pending legislation requires enumeration of all food stamp recipients)	Mandatory enumeration and validation for each household member	Mandatory enumeration and validation for each potential tax unit head.	Mandatory enumeration and validation for each person or couple who provides 80% of household maintenance or for each contributor if no 80% contributing person or couple exists	Mandatory enumeration and validation for each potential household supporter at the certification interview or for the actual supporters (as in modified Jeffords plan) identified during end-of-year survey.
Income	Records total income of household	No additional income information needed	No additional income information needed	Records income per individual for each certification period	Records income per individual for entire year
Resources	Records total resources of household	No additional resource information needed	No additional resource information needed	Records resources per individual for each certification period	Records resources per individual for entire year
Expenses	Records shelter, child care, and utilities expenses of households*	No additional expense information needed	No additional expense information needed	Records expenses per individual for each certification period**	Records expenses per individual for entire year**

*Although total expenses per household are collected, many states only enter the maximum deductible amount onto the computer records or permanent case files.

**For the modified and original Jeffords plan, total expenses per individual must be entered onto the computer or retained in case files, in addition to recording the maximum allowable deduction for that household size.

problem arises if the person who applies for food stamps is not the head of the household (e.g. if the applicant is the non-employed spouse of a working head). The question can be asked as to whether liability for recoupment amounts can be legally attributed to a person who is not present to acknowledge and accept the reponsibility when the initial apportionment of benefits was made.

Next the applicant must report the Social Security number for the person or persons to whom the household's benefits are to be attributed. Recently enacted legislation allows states to require Social Security numbers of all food stamp applicants. However, as will be discussed in the next chapter on IRS administrative issues, for the purpose of recoupment, the IRS will not accept benefit amounts identified by a Social Security number unless that number has been validated. Most employers do not require the validation of the SSN's of their employees, nor do most public assistance programs. If these persons have their Social Security cards, presentation of the card with matching personal identification is adequate validation. However, if the card is not available, each SSN must be validated through application to the Social Security Administration, with a subsequent delay of eight to twelve weeks. Each person for whom a valid Social Security number is required must fill out a Social Security number validation form. This means that under the per capita plan, all household members need to have their numbers validated. A tax unit allocation plan would require validated numbers only of the head of tax units, and the modified Jeffords plan would necessitate that only major household supporters have their Social Security numbers validated. For persons who receive

Supplemental Security Income and Social Security checks, the check stub from the SSA also with personal identification is sufficient SSN validation. After the Social Security Administration processes the validations the responses are sent to the states for incorporation into food stamp files. A special identifier signifying that the number has been validated, is added to the file so that validation need not be carried out again at subsequent certifications. Invalid numbers would be recorded as such and a correct or new number would be sought through normal SSA procedures.

The next step is to collect information needed for recoupment records. Current food stamp regulations require that only the income, resource, and expense data needed for determining eligibility be collected. This usually requires the household to report and document total household income, total non-excluded resources, and expenses for shelter and child care, if these are claimed as deductions. In a recoupment system, additional data must be collected at certification. The amount of additional data required depends on the recoupment allocation plan used.

Under the modified Jeffords plan, the person (or couple) providing 80 percent of the household maintenance is the one to whom the potential recoupment liability is assigned. To find out if there is a main supporter in the household, all household income, resources and expenses must be documented, as well as the persons responsible for each. The person providing 80 percent of the support is considered the head of the household. In those cases where no one person contributes 80 percent of the household maintenance, every household member who contributes some part must provide

individual income, resource, and expense information to the food stamp office.

Under the tax unit allocation plan the household must report on the number and composition of tax units which will be filing tax returns after the end of the year. In practice this would probably require the food stamp worker to become familiar with income tax law and collect some additional information in order to assist the household in determining how it would likely be divided into tax units.

In the per capita allocation scheme, benefits are divided equally among household members. Although individual income and resource information need not be collected at application, the food stamp office must keep records of benefits received by each household member.

6.3.2. Information Processing. In addition to actually collecting more information at certification, recoupment would greatly expand the functions states must perform to record the information gathered from households, and would require them to process this information into a form which can be used to produce food stamp W-X forms for the households and a list of annual allotments for the IRS.

The day-to-day recordkeeping duties of the Food Stamp Program are handled differently depending on whether the state involved keeps its records and performs the necessary computations on a computer, or conducts these functions manually. Various states have computer systems with different levels of sophistication. Some states' computer systems can perform basic caseworker functions such as the calculation of benefits based on income and

other data, while other states' computer systems simply store data from case records. Because of the complexity of the recoupment recordkeeping tasks, only those states having the capability of performing calculations by computer are classified as computerized for the purpose of this report. Using this criterion,27 states and the District of Columbia use computers to calculate benefits, and 19 states use manual methods. The remaining 4 states have both computerized and manual project areas within a single state. However, even the computerized states are currently unable to perform recoupment tasks as conceptually straightforward as summing benefits over a twelve month period. This and the more complex data processing needs will require substantial expansion and alterations to all states' computer systems. In fact the alterations needed may be so comprehensive and expensive that some computerized states may choose to maintain manual recoupment systems even though they could potentially adapt their computer systems.

Although over half the states use computers to perform basic caseworker functions, the number of data elements entered into the computer varies, depending upon the storage capacity of the system, caseload, keypunch and technical staff, type of system and degree of access to it. For example, many states share their computer with other welfare agencies and therefore must compete with the other users for computer time and storage space. Rapid expansion of the household data base--a prerequisite of recoupment since under most allocation schemes, information must be collected by wage earners or individual rather than by households--may strain a system whose resources are already being divided among different groups.

The complexity and costs involved in adjusting the data processing system vary with the type of storage in use. The three possible types are tape, disc and data base management systems (DBMS). The introduction of new data

elements into a tape system will require the greatest number of changes since file layouts will need to be modified. Also, since most tape systems accommodate the data processing needs of several public assistance agencies, all computer programs will need to be rewritten, not just food stamps'. Within disc storage systems, some computer programs will need to be revised and additional space on the computer will have to be created. Least impact will be felt within the DBMS since additions, deletions and changes can be made to the data without rewriting programs. Recoupment may require major changes and expansions in states' computer systems--some as complex as a total systems overhaul.

A further complication in systems redesign arises in county administered programs that may be operating with different systems in each county. In these cases, multiple systems within one state will have to be redesigned. Because computer systems are designed so differently and at such varying levels of sophistication, the integration of recoupment recordkeeping with current food stamp files may occur in two forms. Within the more flexible systems, it may be possible simply to establish a list of all persons to whom benefits are allocated, by SSN, with a cross-reference to the regular case files into which the information pertinent to recoupment has been entered. Most of the states' food stamp systems however, will require the establishment of a new recordkeeping file. This file will maintain the data needed for W-X form generation and IRS tape production by the SSN's of those persons, tax unit heads, or household financial supporters who are potentially liable for recoupment, rather than by household.

Within manual recordkeeping systems, recoupment would require additional staff to update the files and compute the food stamp allocation according to the selected allocation scheme. Changes in addresses and benefit amounts would need to be recorded by hand. At the end of the calendar year, each individual's monthly benefits are summed and annual allotments are assigned. It is at this time that the greatest number of additional staff are needed to compile the master list of annual benefits and to produce and send the W-X forms. Clerks will have to be hired to process these forms manually and mail them before the end of January.

Because recoupment is a system for recovering benefits, it consequently would require states to record any differences between authorizations to receive food stamps and food stamps actually received. Some households certified as eligible to participate in a given month may not actually get their food stamps. For example, in states where food stamps are mailed to the participants, a certain percentage never reaches its destination. A household that never receives its stamps would not be made liable for the amount of those stamps. In many states, households receive ATP (authorization-to-participate) cards when they are certified. Until a household redeems its ATP card for

[redacted]

between authorizations for and redemptions of food stamps and/or ATP cards must be reconciled each month before a legally binding liability can be

of the month. Once a recoupment system is implemented, benefits would be allocated by month or by certification period, and each discrete amount would be added to the next to obtain the annual allotment. Under this system reconciliation must be conducted as close to the end of the month or certification period as possible to avoid recordkeeping confusion between different months or different certification periods. For manual states, this task may prove especially difficult to accomplish in a short time period. Even more important to the effective operation of recoupment, as well as significantly more difficult, is the reconciliation of end-of-the-year issuances in time for food stamp W-X form generation and IRS tape production which must be completed by the end of January. If states take the full 45 days allowed for reconciling November and December issuances, they will not be able to reconcile the allotments for these months in time for food stamp W-X forms to be produced by the end of January.

In addition, there are other problems which must be solved before recoupment can be implemented. Under current rules, households which receive too large an amount of food stamps during a period of time may have that overissuance collected later. The household record, however, only shows eligibility data and benefits received. Separate records are kept of overissuances collected. These separate records must be tied into the recoupment system in order to prevent a household from incurring liability for benefits which the household has already repaid.

6.3.3. End of the Year Forms Generation. At the end of each year, states would be required to send each household that had participated in the Food Stamp Program a food stamp W-X form that would show the total amount of

benefits received that year by the individual, tax unit, or main contributor to the household, depending upon the allocation scheme used. These forms would be filed along with the household's tax return. At the same time, states would produce a list for the IRS of all participating households, tax units, or persons, with the amount of benefits allocated to each.

The first step in this process requires the states to compile a master list of all individuals, tax units, or households supporters who had participated in the program, by Social Security number (SSN). In many state-administered programs, the state agency will be the major information processing point and will therefore have this data at hand. All states with county-administered programs maintain decentralized records, thus requiring the consolidation of county participation lists into one master state list. During this centralized consolidation, duplicate SSN's will be identified. A SSN may be listed twice if a household has moved during the year and received benefits in more than one project area. All allotments assigned to each SSN would be totaled and listed once on the master list. (When the summation of allotments is discussed here and throughout the report, it is assumed that these allotments have been reconciled with redemptions by food stamp offices so that the annual allotments reflect actual benefits received, rather than benefits issued.)

The purpose of this list is to identify recipients and their annual allotments to the IRS so liabilities can be verified by matching this information with individual tax returns. The IRS requires this list in a computer medium, so manual states would have to keypunch their data and produce a

computer tape. While the master list is being run on the computer, the forms resembling wage and salary W-2 forms (referred to here as food stamp W-X forms) could be generated for mailing to each household. The states and counties can produce, fold and stuff these forms by machine or by hand, depending upon the availability of staff and equipment.

Because the generation of these forms must coincide with the tax filing cycle, the process must begin after the end of the tax year but be completed by the end of January. Historically, program participation is near its peak during January, and consequently strains existing staff just to keep up with certifications and issuances. Because the W-X forms and IRS tape must be produced within one month at the same time other demands on staff are heaviest, extra staff and/or computer resources would be needed during the month of January to complete these new duties.

The master list computer tapes are to be sent to the IRS by the end of February in time for the processing of the tax returns that are filed early. When households receive their food stamp W-X forms, they attach them to their tax returns, compute their liability according to the instructions on the new 1040 and 1040A forms, and send them to the IRS. Using the master lists received from the states, the IRS verifies that all W-X's are filed as identified and either subtracts the liability from any refund owed the tax filer, or notifies the filer of the balance due. If the filer is receiving food stamps at the time his or her tax return is filed, then that tax unit is eligible for deferral of any liability due

*In those states covered by a hiring freeze, the need for extra staff becomes an even more serious problem. The existing staff simply may not be able to complete this extra workload in time, thus creating a bottleneck in the system.

after subtraction of the refund. Once the unit is no longer receiving program benefits, the IRS will arrange a no interest, no penalty payment plan that does not place an undue hardship on the tax unit. In those cases where the tax unit would be under a great financial hardship either at tax filing time or when required to pay its balance, it may request a waiver of its liability. The waiver decision is made by the food stamp agency, and if the liability is waived, the IRS is notified to drop that tax unit from its collection list.

Finally, recoupment would add to the numbers of recipient complaints and fair hearings states would have to consider. Households who did not understand or did not agree with the total benefit amount provided on their food stamp W-X form might request a fair hearing to contest their tax liability for food stamp benefits received.

6.4. IMPLEMENTATION

The implementation of any of the recoupment systems under consideration requires enough time so that the necessary changes can be carried out. The three consecutive activities that must be allotted sufficient time are the writing of federal regulations, the programming and systems redesign on the state and county levels and the changes in data collection and recordkeeping in the local offices.

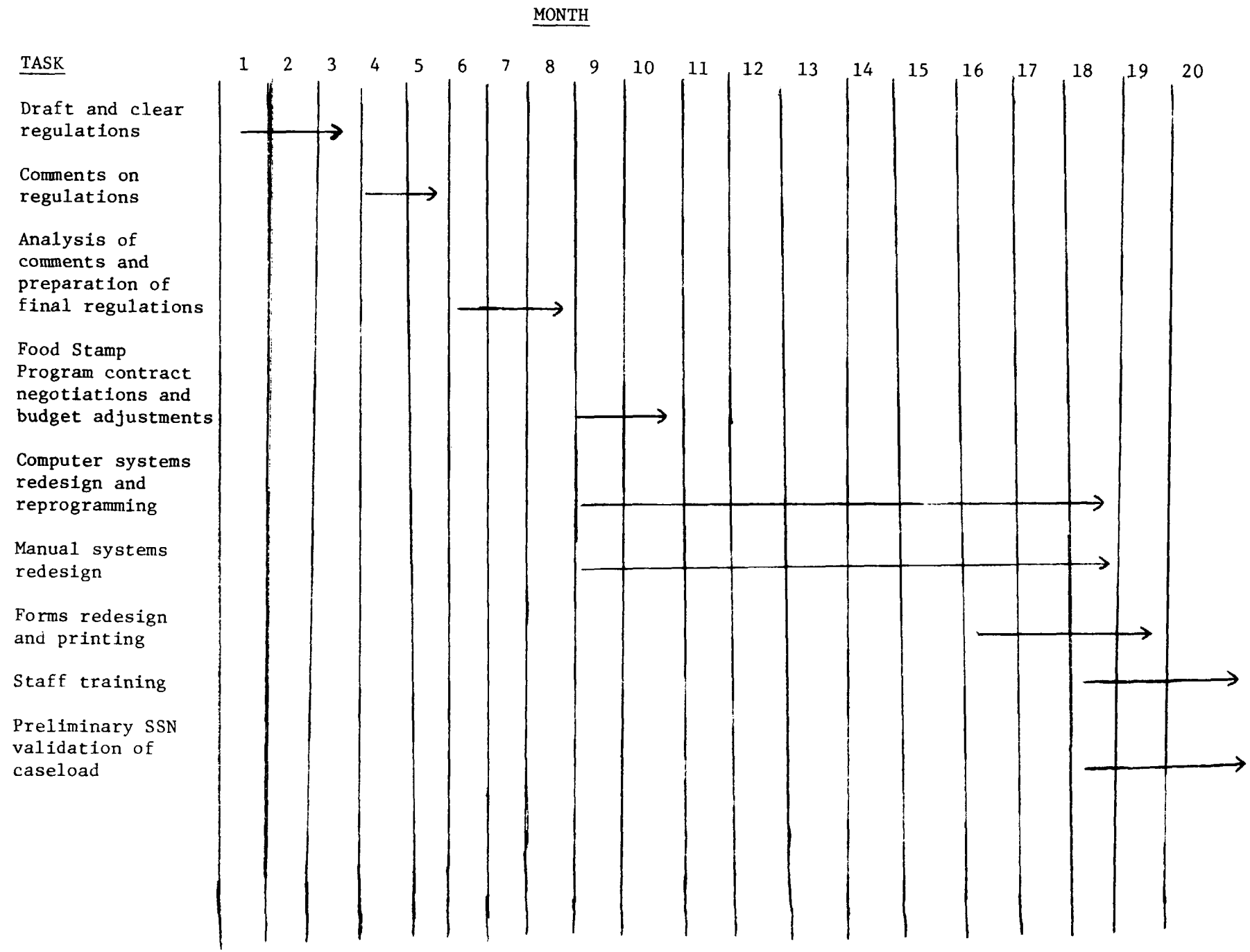
Federal regulations for a system as complex as recoupment would need at least eight months for analyzing issues in conjunction with the IRS, drafting proposed regulations, clearing and issuing proposed regulations, public comments, comment analysis, drafting final regulations, clearing and issuing final regulations. Because of the involvement of the tax system, the Department of Agriculture and the IRS would have to jointly develop regulations. Although it is technically possible

for the regulations to be drafted and cleared in 90 days, this is not really sufficient time for consideration of all the issues involved. The regulations would have to detail all aspects of the allocation system. For example, the treatment of step children, foster children, and income of parents living at separate residences would have to be specified. A standard 60-day comment period and 90 days for analysis of the comments and the drafting of final regulations brings the total time to eight months or more. State food stamp administrators cannot proceed with implementation until the regulations are published in final form.

Once the regulations have been published in final form, state officials must design new data systems, adjust their old ones and train staff to administer the new program. Many states contract out their data processing work and therefore must request supplements to their budgets and renegotiate their contracts before they can effect the changes. Up to eight weeks is needed to handle the budget changes and the negotiation with outside contractors.

The redesign of computer programs and manual recordkeeping systems to collect recoupment data, record case changes, allocate benefits, generate food stamp W-X forms and the IRS data tape will take a substantial amount of time. Estimates for reprogramming received from the contacted states ranged between six and twelve months, however most were closer to the latter time period. The required time depends upon the capabilities of the system at the start, and the complexity and detail of the recoupment system being implemented. A ten month time period is used in this report for projecting reprogramming and recordkeeping system development.

In computerized states, the first two months of the ten month period for systems redesign will be spent coding the preliminary system parameters. The next seven months will be needed to put the systems on the computer, redesign the systems where needed, and get the systems operational. In many of the states, as noted previously, this will require working on several county systems within one state simultaneously. Additionally, a paper flow system must be designed since certain manual files will still be in use. One month will be required for final shakedown of the programs to ensure they can perform their functions and process the data as intended. In manual states, ten months will be required to totally reorganize the recordkeeping systems and set up the procedures for collecting, storing and retrieving information relevant to recoupment. In states where budget and contract negotiations must be conducted, ten months is probably too short for these activities plus the coding, programming, testing, and redesigning which will be required. Toward the end of this ten month period, states will have enough knowledge of the way information is to flow under recoupment so that forms may be designed and printed and staff trained in the new procedures. As a final step in preparation for recoupment, states will begin to validate all the Social Security numbers for participants and applicants. Forms development, staff training and Social Security number validation of the caseload may begin during the final months of systems redesign and will span a three-month period. Once forms are ready, staff is trained, preliminary Social Security number data is collected, and systems are prepared, eligibility workers can begin collecting detailed recoupment information from applicants. The implementation schedule for recoupment as illustrated in the following time-line therefore requires at least twenty months.



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Because recoupment must be coordinated with tax liability, the data collection effort for recoupment must begin on January 1. Therefore, even if recoupment legislation were to be enacted in the next several months, the earliest that data collection could begin would be January 1, 1982. That means that the first savings from recoupment would be realized in April of 1983.

On the other hand, the costs of preparing state systems to collect and process recoupment data would be incurred beginning a year prior to the implementation of recoupment. For a recoupment system to begin operation in January of 1982, start-up costs would begin in January of 1981. Therefore, the costs of operating a recoupment system would be felt for two calendar years (and two fiscal years) before the first savings were realized.

6.5. COSTS

This section will present three administrative cost computations covering the costs of administering the three most feasible recoupment allocation schemes, per capita allocation, tax unit allocation, and the modified Jeffords plan(pro rata allocation by certification period). Each cost computation will be explained step by step.

The costs of administering recoupment vary depending on the plan used to allocate benefits. The major reasons for this variation are differences in the number of individuals in a household for whom information must be collected and processed, the level of detail of the information collected, and the number of recipients in a household for whom food stamp W-X forms must be prepared and mailed.

However, there are several program parameters on which all three cost estimates are based:

- -costs are computed based on a projected FY 1980 participation of 8,512,500 households or 25,600,000 persons participating at some time during the year (exclusive of Puerto Rico, Guam and Virgin Islands who do not participate in the federal income tax system and hence cannot potentially be liable for recoupment)

- -labor costs are based on wage rates in 1979, and include an additional 18 percent for the cost of fringe benefits, and 50% for overhead (which includes support costs such as rent,furniture, and office supplies)

- -costs are computed separately where appropriate for computerized and manual states because of the different components of costs in the two types of systems; 31 states and D.C. have computer systems which could be adapted to recoupment and 19 states would be manual; 69 percent of all participants reside in these computerized states and 31 percent reside in manual states

Start up costs discussed in this report do not include the costs of purchasing or leasing additional computer hardware. These costs were determined to be highly variable from state to state, depending on each state's present system. However, the state of Florida, which recently expanded its food stamp computer system to include individual information(such as would be required for recoupment)spent $889,000 under a seven year lease/purchase agreement for computer hardware alone. Florida's annual operating cost for food stamp data entry, software, maintenance, and computer operation is $800,000. The start-up costs in this report are therefore on the low side since at least some hardware costs would need to be expended in nearly all fifty states.

In addition, the costs covered in this report do not include the cost of handling an increased number of complaints and fair hearings, although there will certainly be increased costs for these procedures. The cost of handling complaints and fair hearings are primarily costs for additional staff time and overhead on the local and state levels. This factor also biases the state and federal expenditure estimates on the low side.

6.5.1. Per Capita Allocation. As described earlier, the per capita allocation scheme allocates food stamp benefits equally to all recipients within each household. Under this plan, Social Security numbers are collected and validated for every household member, including children, and food stamp W-X forms are sent to every member.

The administrative costs of all allocation plans are divided into start-up and operating costs. For a per capita plan, the start-up costs include the costs of new computer programming and testing, and alterations to storage format; the design of new forms for recordkeeping and program explanation; collection and training costs for new eligibility workers required because of the additional time needed to certify each recipient. These are one-time costs because they involve the preparation of systems and staff to handle recoupment.

6.5.1.1 Start-up Costs. The first item included in the start-up costs is the cost of setting up a system to collect and process the information needed for recoupment. In manual states, this involves a certain amount of time spent by an expert in information systems setting up procedures for data flow and storage. The cost would be about $7,500 per manual state, in salary and related costs, for a total of $143,000.

In computerized states, the process is considerably more complex. As in manual states, information gathering procedures must be set up for local offices. In addition, the entire computer system must be reprogrammed to handle new data storage, make new computations for allocations, generate food stamp W-X forms for every household member, produce a master list for the IRS, and make corrections on records and to the W-X forms. Reprogramming for a per capita recoupment procedure is estimated to cost about $24,000 per state and the District of Columbia. The state of Florida's recently completed total redesign and expansion of its computer system (for purposes other than recoupment) cost about $80,000 for new programming. Because Florida already has sufficient capacity in its computer system for the recoupment data, the cost in Florida only is estimated to be $12,000. Cost for reprogramming in computerized states would be $756,000. These figures are based on estimated time and salary costs received from a sample of states, excluding some responses which seemed unreasonably high.

As the computer programs are developed, they will have to be tested on the computer. Based on a national average cost for computer time, the cost for testing these programs in the 31 computerized states and the District of Columbia is about $128,000. Added to the total reprogramming costs of $756,000, the total cost for computerized states to adopt their computer systems is $884,000.

The second item included in start-up costs is the development and production of the forms needed to administer recoupment. These costs are approximately the same in manual and computerized states and are independent of caseload size. The cost, $7,500 per state and the District of Columbia, covers staff time and related costs for the design and production of new computer input documents, new interview data collection forms, new adverse

action forms, W-2 type forms, and a pamphlet or letter explaining recoupment.* Again, these costs are based on state by state estimates, adjusted by FNS. Total cost for development of forms would be $383,000.

The third item included is the cost of validating Social Security numbers (SSN's). SSN's have to be validated throughout the year for every new participant in the program. However, at the time recoupment is first implemented, SSN's must be validated for all participants already on the program. The amount of this cost is dependent on the number of persons whose SSN's must be validated. In the per capita allocation plan, SSN's would be recorded and validated for every household member. The recent enactment of legislation to enumerate all food stamp recipients will mean that 30 percent of the population would have recently been enumerated and therefore would not need validation. Another 10 percent - most of the remaining children and 5 percent of the remaining adults (the proportion who previously had no SSN's) - would have recently been enumerated under normal procedures and therefore would not need validation. Another 10 percent would be receiving Social Security payments and could use their check stubs as identification and number validation. Therefore, about 50 percent would need full validation. The cost of caseworker time to perform this process is estimated at $8.4 million. This is based upon an average of five minutes to validate each person, including assisting the person to fill out the form, and processing the form and recording the response from the Social Security Administration. Costs for processing the validations at the Social Security Administration were unavailable and are therefore not included here.

*Currently, face-to-face interviews are conducted at certification to inform participants of their responsibilities in the Food Stamp Program. When a face-to-face interview is not possible, recipients should receive a written explanation of their responsibilities. Because recoupment can create a legal liability for a person not present at the certification interview, written materials would be prepared to inform this person of the liability.

The last component of start-up cost is training costs for new eligibility workers. Since the collection of information for recoupment adds considerably to the time needed to conduct a certification interview, and because approximately the same number of participants would need to be certified, additional eligibility workers would be needed. Based on the added time per interview, the equivalent of approximately 1212 new full time eligibility workers across the nation would be required. In addition, most states have staffing rules that provide for the hiring of a supervisor for every fixed number of new eligibility workers. According to a national food stamp certification survey conducted for FNS in 1974-75, the ratio of supervisors to eligibility workers ranged from 1: 5 to 1: 10. As a conservative estimate, the ratio used in these calculations is 1 : 10. This means that the equivalent of 121 full time supervisors would also be needed

The usual period of time needed to train a new eligibility worker before that person is able to handle food stamp cases is two weeks. Therefore training costs were calculated as 80 hours, at an average of $5.40 per hour, plus 18 percent for fringe benefits, plus 50 percent support costs. The wage rate of $5.40 per hour was derived from state figures on wages of certification workers. Total costs for training new workers nationwide would be $926,453 for eligibility workers and $92,492 for supervisors.

Total start-up costs for the 50 states and D.C. would be $10.8 million under a per capita allocation scheme.

6.5.1.2. Operating Costs. The calculation of annual operating costs is based on the impact of recoupment at three points in the food stamp process. First is the additional time at each certification interview needed for

collecting new household information, explaining recoupment, and validating Social Security numbers for new applicants. Second is the additional cost for data processing and performing recordkeeping functions throughout the year, on the computer or manually. Finally, there are specific tasks at the end of the year to compute the yearly benefits each person has received and notify the recipients and the IRS. These three aspects of the recoupment process continue every year the program operates.

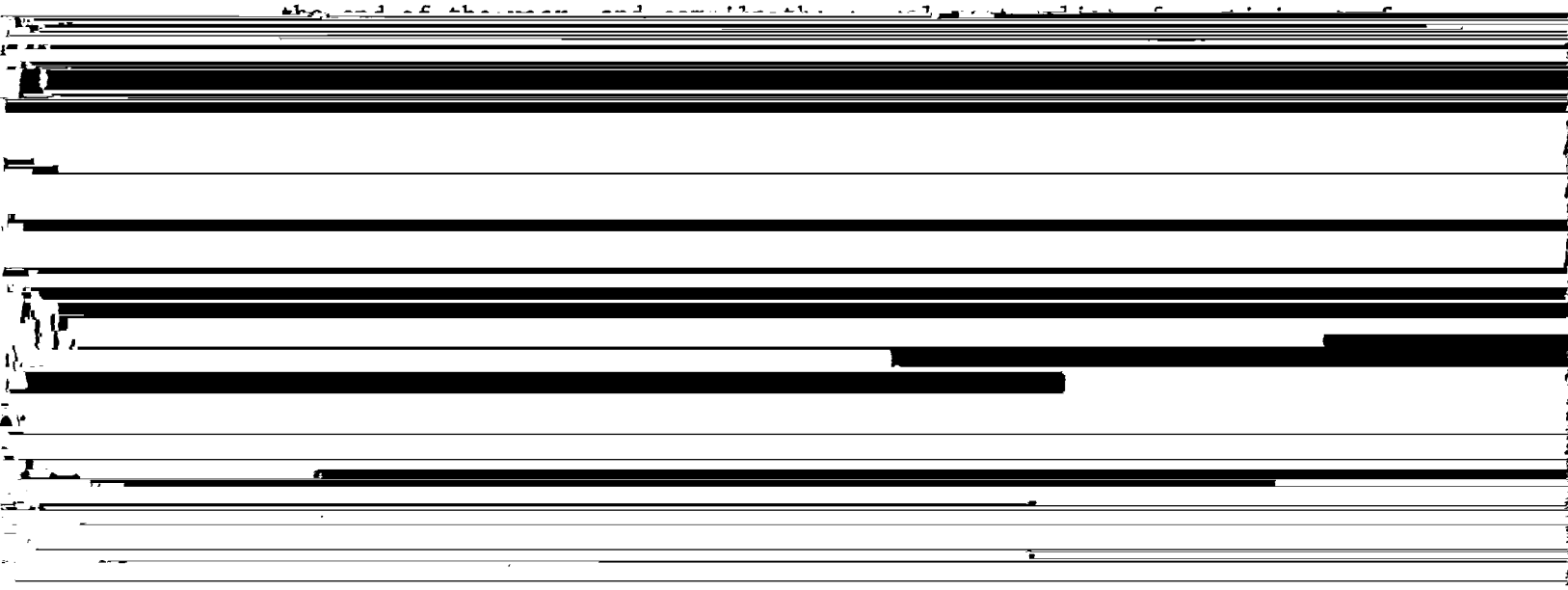
The first cost is the added time needed to certify households. Added certification costs are based on the assumption that every household is certified an average of twice each year. This assumption is based on a standard certification period of three months, and information which indicates that on average, households remain on the program for six and a half months. The total added interview time reflects the time needed for one full certification and a lesser amount of time for one recertification, since the case file will already contain some of the information recorded during the first certification.

The estimate of the additional time needed at certification to collect recoupment information was derived from time allocation studies conducted in various states. Based on the time needed for similar tasks, it was estimated that recoupment would increase the time needed for one certification and one recertification by a total of thirteen minutes per household in computerized states and fifteen minutes per household in manual states. This time is taken in recording names and Social Security numbers for every household member, recording any changes through the certification periods, explaining recoupment, and answering questions about the process

from applicants. The difference in the time needed under computerized and manual systems exists because under a manual system, the eligibility worker must fill out more forms and make more hand calculations. In addition, Social Security numbers would be validated for every household member at the first certification. The cost figures are based on the assumption that 30 percent of the households that participate over the course of the year will be new to the program. Using the same reasoning as that used for the start-up validation, 50 percent of these new persons will need Social Security number validation at an estimated time of five minutes each. The cost of the additional certification time, based on an average of $5.40 per hour for certification workers and $5.94 per hour to supervisors plus 18 percent for fringe benefits and 50 percent support costs, would be $14.6 million in computerized states plus $2.5 million for validation and $7.6 million in manual states with another $1.1 million for validation.

The second cost to operate a recoupment system is the cost of processing the additional data collected and of maintaining updated case files so that individual allocations can be summed at the end of the year. These costs vary greatly between computerized and manual systems. For a computerized system, data must be keypunched into the computer and computer time must be used to allocate benefits among the household members. Keypunching costs were calculated based on an average keypuncher salary of $4.13 per hour, plus 18 percent for fringe benefits and 50 percent support costs. Estimates of the time needed for computer processing and the cost of computer time were gathered from selected computerized states. Total cost for computerized data processing would be $2.6 million in the 31 states and D.C.

In manual systems, additional clerk time is required to set up case files, make changes in case records, calculate individual total benefit amounts at



the IRS. From time allocation studies, an estimate of fourteen minutes per individual recipient per year in clerk time was derived. Clerk wages, gathered from selected states, averaged approximately $3.50 per hour, plus 18 percent for fringe benefits, and 50 percent support costs. The total cost of manual file maintenance was estimated to be $12.8 million for the 19 states with manual systems.

The third cost of an ongoing recoupment process is the cost of preparing food stamp W-X forms and a master list of participants for the IRS at the end of the year. The cost of producing and mailing the W-X forms to every household member was estimated based on state estimates of individual costs, to be 26 cents per participant. This covers postage (15 cents), purchase of envelopes (2 cents), forms (3 cents), envelope stuffing (3 cents), and processing of information (3 cents). At 26 cents per participant, the total cost of generating the W-X forms would be $6.7 million.

The IRS master list would probably be produced simultaneously with the generation of W-X forms. In computerized systems, all that would be needed would be to duplicate the data tape used to generate the W-X forms. In manual systems, however, the manually-produced list would have to be keypunched into

Finally, states would incur certain other costs to purchase computer tapes and to pay for the extra time of a supervisory systems analyst to oversee the computer operations, manual record systems, and end-of-the-year activities.

These costs were estimated to be $300 per state for computer tape purchase and $23,010 per state for oversight, for a total of $1,188,810.

Total operating costs therefore, for operating a per capita recoupment plan would be about $51.3 million.

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FOOD STAMP PROGRAM ADMINISTRATIVE COSTS:

Per Capita Allocation

START-UP COSTS	
Programming and Reformatting	
Manual Programs	$142,500
Computerized and Mixed Manual/Computer Programs	884,000
Forms Development	382,500
Social Security Number Validation	8,351,223
Training Costs for New Eligibility Workers	
New eligibility workers	926,453
New supervisors	92,492
TOTAL START-UP COSTS	$10,779,168
OPERATING COSTS	
Added Certification Costs	
Added interviewer costs for computerized caseload	$14,612,321
Social Security Number Validation (computer states)	2,538,491
Added interviewer costs for manual caseload	7,572,809
Social Security Number Validation (manual states)	1,130,588
Data Processing and Record-Keeping	
Computer input and calculations	2,640,058
Manual record-keeping and filing	12,834,057
End of Year W-X and IRS Tape Production	
W-X form generation	6,656,000
IRS data tape production	2,102,802
Purchase of tapes and oversight	1,188,810
TOTAL OPERATING COSTS	$51,275,936

6.5.2. Tax Unit Allocation. The allocation of benefits to tax units within each food stamp household is the second major recoupment scheme for which administrative costs were computed.

The same basic program parameters outlined in the beginning of the section on the administrative cost of a per capita allocation plan were used for the preparation of estimates for the tax unit allocation scheme, with a few additional assumptions. There is a range of estimates for the cost of implementing the tax unit allocation scheme, based on the proportions for households assumed to contain multiple tax units. From computer simulations, out of a total of 8.5 million households, 67 percent (or 5.7 million) have one tax unit, and 33 percent (or 2.8 million) have more than one. For these cost estimates, it was assumed that households containing multiple tax units contained only two, although it is known that some have even more. This brings the number of tax units within the food stamp population to 11.3 million. Other information sources cited 75 percent and 25 percent for single and multiple tax unit household respectively, for a total of 10.65 million food stamp tax units.

6.5.2.1. Start-up Costs. The costs of developing an information processing system, reprogramming computers, and developing forms are the same as those costs under a per capita allocation plan. Because these costs are independent of the number of tax units involved, they are the same under both ends of the range of estimates. These costs would be approximately $143,000 for developing an information processing system in manual states and $884,000 in computerized states, and $383,000 total for forms development.

The costs of validating Social Security numbers and of training new eligibility workers were calculated using the same methodology as in the per capita plan. The cost are somewhat lower than those for the per capita plan because information is needed only for the head of each tax unit, rather than for every household member. It was estimated that 15 percent of the potential tax unit heads are SSI/SSA recipients and therefore wouldn't need extensive validation. Another 15 percent were estimated to have either recently been enumerated or have sufficient documentation as validation. For start-up, 70 percent of the tax unit heads on the program at that point in time would be validated. Validation costs for these tax unit heads were estimated to be between $4.7 million and $5.1 million for all states, and training about $1.0 million for eligibility workers and about $100,000 for supervisors.

Total start-up costs would therefore range between $7.2 million and $7.6 million under a tax unit allocation scheme.

6.5.2.2. Operating Costs. Under the tax unit allocation plan, Social Security numbers would be collected and validated only for the head of every tax unit. Therefore, the total additional time needed for validation would be less under the tax unit plan than under the per capita plan. On the other hand, the amount of additional time required to collect information from each household would be longer because of the necessity of collecting the information needed to determine the number and composition of tax units within the household. An extra 15 minutes would be required in computerized states and 17 minutes in manual states for household data collection. Five minutes apiece for 70 percent of the new tax unit heads would be required

for validation of Social Security numbers. Therefore, the additional costs at certification would be about $11.0 million for all computerized states and about $8.6 million in manual states. In addition, $1.5-$1.6 million would be required for validation in computerized states, and approximately $700,000 in manual states.

Data processing and recordkeeping costs were computed utilizing exactly the same methodology as in the per capita scheme. However instead of allocating benefits evenly among all household members, they would be divided according to the relative proportions of the tax units and assigned to the head of the tax unit. Therefore, records would be kept and calculations made for 10,651,875 - 11,333,595 tax unit heads, instead of for every participant. Costs for computerized states are estimated to be $1.1 million to $1.2 million, and for manual states, $5.3 million to $5.7 million.

The production of W-X forms and IRS data tape would require the same process as in the per capita scheme, although, again, the number of units is smaller. Instead of each person receiving a W-X form, only tax unit heads would receive them. Estimated costs for generating W-X forms range from $2.8 million to $2.9 million. Producing the IRS data tape would cost from $882,000 to $924,000 and tape purchase and oversight, $1.2 million, the same as under the per capita plan.

Total annual operating costs for the tax unit allocation scheme range between $33.0 million and $33.8 million.

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FOOD STAMP PROGRAM ADMINISTRATIVE COSTS:

Tax Unit Allocation

START-UP COSTS		
Programming and Reformatting		
Manual Programs	$ 142,500	- 142,500
Computerized and Mixed Manual/ Computer Programs	884,000	- 884,000
Forms Development	382,500	- 382,500
SSN Validation	4,735,672	-5,055,650
Training Costs for New Eligibility Workers		
New eligibility workers	987,605	- 992,956
New supervisors	98,608	- 98,608
TOTAL START-UP COSTS	$7,230,885	-$7,556,214
OPERATING COSTS		
Added Certification Costs		
Additional Interviewer Costs for Computerized Caseload	$11,042,879	- $11,042,879
SSN Validation (computer states)	1,471,898	1,578,557
Additional Interviewer Costs for Manual Caseload	8,575,406	8,575,406
SSN Validation (manual states)	661,288	703,951
Data Processing and Record-Keeping		
Computer Input and Calculations	1,094,347	- 1,168,153
Manual Record-Keeping and Filing	5,334,638	- 5,682,550
End of Year W-X and IRS Tape Production		
W-X form generation	2,769,488	- 2,946,735
IRS data tape production	881,907	- 924,370
Purchase of tapes and Oversight	1,188,810	- 1,188,810
TOTAL OPERATING COSTS	$33,020,661	- $33,811,411

6.5.3. Modified Jeffords Plan (pro rata allocation by certification period). Under the modified Jeffords allocation plan, the entire household's benefits are assigned to the household member who provides at least 80 percent of the costs of maintaining the household. If no one person provides 80 percent, then benefits are allocated to each household member according to that member's relative contribution to household maintenance.

All assumptions presented at the beginning of this cost section are valid for the modified Jeffords plan. In addition, computer simulations based on recent caseload data predict that 48 percent of all food stamp households have one person who contributes at least 80 percent to the household maintenance. Fifty-two percent of the households have at least two members who jointly provide 80 percent of the financial support. For the purposes of cost estimates, it was further assumed that the households in the latter category have only two contributors, although it is known that some have more than two. The total number of contributors to household maintenance to whom benefits will be allotted is 12,952,680.

6.5.3.1. Start-up Costs. As in both of the previously discussed allocation schemes, start-up costs for the modified Jeffords allocation plan remain the same for programming and reformatting ($143,000 for manual states and $756,000 for computerized states) and forms development ($383,000). The costs of validation ($5.8 million) and training ($1.4 million for eligibility workers and $142,000 for supervisors) reflect the fact that Social Security numbers need only be collected and validated for major household contributors. For the same reasons as those given under the tax unit plan it was assumed that 70 percent of the principle contributors will need validation. Start-up costs would be approximately $8.8 million under this allocation

plan.

6.5.3.2. Operating Costs. This allocation scheme requires the greatest amount of time for gathering information on income, resources, and household upkeep expenses. All this information must be collected for each household member in order to determine whether one member contributes 80 percent of household support. For households with an 80 percent contributor, the extra time needed is expected to be 17 and 19 minutes each, while those for which information for two or more contributors is required, will take 27 and 29 minutes each, in computerized and manual systems, respectively. Each person to whom benefits are to be assigned must also have a validated Social Security number. Unvalidated numbers would be validated at an additional five minutes each. The cost of information collection for all households and contributors to household maintenance is $25.0 million in computerized states and $12.2 million in manual states. Validation costs are estimated to be $1.8 million and $0.8 million in computerized and manual states respectively.

In computerized programs, the cost of keypunching data into the computer along with the cost of pro-rating the benefits among household financial contributors is about $1.3 million. Clerks in manual programs must record all information and perform calculations by hand, taking 14 minutes for each record, for a total of $6.5 million. These costs together cover data processing, recordkeeping and updates for 13 million persons who are contributors to the maintenance within 8.5 million food stamp households.

End of the year W-X form and IRS tape production cost the same per unit as all other allocation schemes. The difference in costs is due to the difference in the number of units that must be processed. The total expenditure for processing all 13 million W-X forms would be about $3.4 million. Producing 13 million IRS tape entries and keypunching the data from manual programs onto the computer would cost about $1.1 million. Purchasing tapes and oversight for all 50 states and D.C. would be about $1.2 million.

The end of the year costs bring total operating costs for the modified Jeffords allocation scheme to an estimated $53.2 million.

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FOOD STAMP PROGRAM ADMINISTRATIVE COSTS:

Modified Jeffords Allocation

START-UP COSTS	
Programming and Reformatting	
Manual Programs	$ 142,500
Computerized and Mixed Manual/Computer Programs	884,000
Forms Development	382,500
SSN Validation	5,780,933
Training Costs for New Eligibility Workers	
New eligibility workers	1,425,606
New supervisors	142,178
TOTAL START-UP COSTS	$8,757,717
OPERATING COSTS	
Added Certification Costs	
Additional Interviewer Costs for Computerized Caseload	$24,958,271
SSN Validation (computer states)	1,791,876
Additional Interviewer Costs for Manual Caseload	12,223,154
SSN Validation (manual states)	810,611
Data Processing and Record-Keeping	
Computer Input and Calculations	1,341,544
Manual Record-Keeping and Filing	6,494,342
End of Year W-X and IRS Tape Production	
W-X Form Generation	3,367,697
IRS Data Tape Production	1,065,105
Purchase of Tapes and Oversight	1,188,810
TOTAL OPERATING COSTS	$53,241,410

6.6. ADMINISTRATIVE ISSUES

The implementation of a recoupment process would raise some very serious issues in the administration of the Food Stamp Program. Some of these issues are created because of the difficulty of integrating two systems - food stamps and the tax system - which were not designed to work together. Others arise because of the nature of the population served by the Food Stamp Program. All these issues present problems which must be solved before the recoupment process can be effectively administered.

6.6.1. Error Rates. The implementation of recoupment would tend to have an adverse effect on error rates in the program. Recoupment would greatly increase the amount and detail of the information collected on household members. It would also increase the number of manipulations each item of information goes through. More data is collected on each household and these data are handled more times under a recoupment process. The combination of these two factors would create more opportunities for error in the program.

These effects are particularly serious when viewed from the perspective of the Department's proposed error rate sanction system. Under this system, which is currently pending in legislation before the Congress, states with error rates above the national average would be given annual target figures which were lower than their current error rates. States which failed to lower their error rates to meet the target figures would be liable for all of the food stamp bonus dollars issued in excess of the target.

Under a recoupment system, states could find themselves in a no-win situation. The costs of implementing recoupment are shared on a 50/50 basis between the states and the Federal government. However, the amounts collected under the recoupment process are deposited into the Federal treasury. The states are in the position of providing half the financing of recoupment and suffering the majority of the administrative problems, yet they receive none of the benefits. Added to this, under the error rate sanction system, the states could be penalized if their error rates increase due to the complexity of the recoupment process.

Three points in the recoupment process, in particular, have been identified as having the potential of affecting error rates. As implementation of recoupment is carried out, most states will find it advantageous to convert to a filing system that identifies each case by Social Security numbers. Some states currently use the Social Security number of household heads as case identifier. However, the conversion by other states for recoupment recordkeeping will probably result in a rise in the error rate, at least temporarily. Changing the case identifier is an error-inducing alteration since all changes to case file information are made using the case identifying number.

The second point at which errors are likely to occur is at the end of the year when monthly benefits received by a household are summed to produce the annual benefit total. Normally, states need up to 45 days to reconcile their records of households authorized to participate in the program with households actually receiving benefits. In any month, a small percentage

of the households who are authorized to participate in the program do not actually receive their benefits; however, a household cannot be made liable for benefits it never received. Therefore, the reconciliation of benefits authorized during November and December must be completed before the W-X forms are sent to households in January. Requiring such an unsually rapid reconciliation process, at the same time state personnel resources are strained to produce annual benefit totals, W-X forms, and a master list of beneficiaries for the IRS, will likely produce additional errors.

Third, after the local food stamp offices have compiled master lists of all food stamp participants in their project areas, these lists would be transferred to the state office to be consolidated into a statewide master list. At this time, the lists would have to be checked for duplicate Social Security numbers resulting from households moving from one local area to another. The process of compiling the lists, consolidating local lists into one state list, and adding together all allocations identified by the same Social Security number allows numerous opportunities for error, especially because all these tasks must be accomplished in a period of two months or less.

6.6.2. Social Security Number Validation. The IRS will not accept lists of persons with recoupment liabilities identified by Social Security number (SSN) unless the SSN's have been validated. Validation is required for recoupment purposes, even though it would not be required in order to match food stamp data with other data sources using SSN's, as has been authorized in recently enacted legislation. Unlike Social Security matching, recoupment would use the

SSN as the identifier to assign a potential tax liability to a household. As explained earlier in this chapter, unless the food stamp applicant has available a Social Security card with matching personal identification, validation requires the applicant to fill out and sign a validation form, which is then sent to the Social Security Administration.

The validation process increases the time needed for food stamp certification, adds to the traffic in food stamp offices, and creates additional paperwork for applicants and for certification workers. The worst problem would be created by the per capita allocation plan. Under this plan, every household member would be required to present a Social Security card and personal identification or would have to fill out a validation form.

Under the modified Jeffords allocation plan, the principal household supporter must have available a Social Security card or that person will be required to come in person to the food stamp office to fill out the SSN validation form. This can be a problem if the principal supporter is employed and the application is being made by a non-employed adult in the household. If a tax unit allocation scheme is chosen, the head of every tax unit in the household must be able to present a Social Security card with personal identification or go through the validation process.

To expedite the validation process, the state agency would probably be required to make a written agreement with the Social Security Administration (as many have already done for AFDC) to allow the local food stamp offices to handle SSN applications for food stamp recipients and therefore,

function as a local Social Security office. Food stamp offices would batch their validation forms by case number, and send them to a statewide control point that transmits the information on a magnetic tape to the Social Security Administration. The validated numbers remain organized by case number when the Social Security Administration's response is electronically transmitted back to the central control point. From there, they are sent on to the local food stamp offices for incorporation into each case file. If the number cannot be validated, then the food stamp agency must either obtain corrected information from the applicant, or have the applicant complete a new form to obtain a new number.

The Social Security Administration usually requires about four weeks in which to process the information and validate SSN's. Total turnaround time, including batching, checking documentation, tape production, processing, transmittal to and from the central control point and to and from the Social Security Administration is eight to twelve weeks. Experience from AFDC demonstrates that more time is needed if the Social Security Administration receives tapes from several states at one time, if the tapes received are especially long ones, or if some of the applications don't include the necessary documentation.

These time delays--validation processing time and documentation collecting time--may confuse the recordkeeping process by necessitating the maintenance of a large number of cases with dummy numbers for household members while their SSN's are being validated. AFDC experience has also revealed that quality control rates are adversely affected by errors in transcribing numbers. A third problem arises with those food stamp recipients who

submit their first application during the final months of the calendar year. Their validated numbers may not be received in time for the compilation of the IRS data tape. A separate list of pending numbers must be included in the tape sent to the IRS so that these persons' recoupment liabilities may be checked upon receipt of the Social Security Administration's response tape.

In order to avoid the worst problems of SSN validation food stamp applicants should be notified before they come to the food stamp offices that they should bring in all household members' Social Security cards (along with identification such as a birth certificate) and other documents needed for certification. In addition, it would be wise to implement the requirement for validation of SSN's several months prior to initiating the recoupment process, so that validation of much of the caseload's SSN's may be completed without the complicating element of the maintenance of recoupment records.

6.6.3. Changes in Household Composition or Circumstances. Low-income households, in general, tend to experience significant numbers of household composition changes over the course of a year. Data from the Seattle-Denver Income Maintenance Experiment indicated that 6 to 12 percent of marriages (including consensual unions) among low-income families not taking part in the experiment dissolved over the course of a year. In the same period of time, between 8 and 21 percent (depending on race) of single women married.

All recoupment allocation plans, except the per capita plan, are based on household composition. In a tax unit allocation plan, benefits are allocated according to the composition of the tax unit or units within a household. Under the modified Jeffords plan, the allocation of benefits depends on

household members' relative contributions to household maintenance. Once an allocation of benefits has been made for a certification period, or other period of time it is difficult to change. If a change in household composition occurs, adjustments would be made in future benefit allocations.

The frequency of household composition changes creates several problems in a recoupment system. One problem is the administrative complications caused by frequent changes. Because the allocation of benefits at a given time depends on the most current household composition, frequent household composition changes would result in frequent changes in benefit allocation records. More frequent records changes would lead to increased administrative costs and an increased likelihood of errors.

In addition, serious problems of misplaced liability and loss of recoupable benefits can occur. This can lead to some household members being held liable for benefits received by persons not in their household or tax unit, and other household members escaping any liability at all.

For example, consider a household consisting of a woman, working at the minimum wage, and her three children. The household receives food stamps for the first six months of the year. Under a recoupment system, the food stamp benefits would be allocated to the mother under either the modified Jeffords plan (because she provides at least 80 percent of household maintenance) or the tax unit allocation plan (because she is the head of the tax unit). In July the oldest daughter marries and moves out of the household. She and her husband both work, earning above twice the poverty level. The mother and her remaining two children continue to

receive food stamps.

At the end of the year, the mother files a tax return which includes food stamp benefits for herself and three children for six months, and for herself and two children for six months. Although the married daughter and her husband earned income over twice the poverty level, they are not liable for any of the benefits received by the daughter. Only under a per capita allocation plan would the daughter's food stamp benefits be assigned to her new household. Under any of the other plans, either the mother would end up repaying benefits received by a daughter she cannot claim as a dependent, or these benefits would simply not be recovered.

The need to allocate benefits among a household's members also leads to another problem. Each household's benefit allocation would probably be determined each time it comes into the local office for eligibility recertification. This would be every one to nine or more months, depending on the nature of the household. In between these times, the last-determined allocation would apply. If the household's circumstances changed in the interim, certain individuals could be assigned a greater or lesser recoupment liability than they deserve as the following example illustrates.

Two sisters, A and B, live together with A's three children, as a single food stamp household. When the household is recertified for food stamps on March 15, A's earnings provide more than 80 percent of the cost of the household's maintenance. The next week A's earnings drop drastically and B's earnings increase. The household's total income, and hence the amount of benefits it is entitled to, do not change, but B now provides more than

80 percent of the cost of the household's maintenance. This change is entered into the food stamp office's files on September 15, the next time the household is recertified. When the information for IRS to compute recoupment liabilities is put together at the year's end, A is held accountable for all of the benefits received between March 15 and September 15, although A had smaller earnings than B for most of that period. B, on the other hand, has no liability for those six months, despite her considerable earnings.

More frequent reallocations would solve or at best minimize this problem but only at great expense and with even more complex data requirements. The opposite extreme--allocating only once at the end of the year--would be worst of all, possibly creating large inequities.

Beyond equity considerations, there may also be legal difficulties. When households' circumstances change between reallocations, individuals can be inadvertently held liable for others in ways not consistent with federal tax laws. If courts disallow this, recoupment might have to be discontinued.

6.6.4. Household Mobility. Food stamp households also tend to move frequently. A survey of the AFDC population conducted by the Social Security Administration found that 45 percent of that population lived at the same address for one year or less. This finding is particularly relevant to the Food Stamp Program since nearly half of food stamp households also receive AFDC.

A recent longitudinal study of the WIN program produced similar results. In attempting to arrange a final interview with study participants, the investigators discovered that nearly 40 percent of the participants had moved and left no forwarding address. Due to their fluctuating work patterns, WIN participants are similar to those food stamp participants who have similar fluctuations in employment. These are the very food stamp households who are most likely to incur recoupment liability.

In order to mail food stamp W-X forms to households at the end of each year, the food stamp office must have these households' addresses. Without W-X forms, households would not be aware of their total annual benefit amounts, and would not be able to figure any recoupment liabilities. If households who move submit tax returns to the Internal Revenue Service, the IRS could notify them of their recoupment liability. However, this process would increase IRS administrative costs.

The problem is compounded if the recoupment liabilities of households are deferred. The proposed recoupment amendment includes a provision for the deferral of recoupment payments if the household was still receiving food stamps when it filed its tax return. Waivers of liability in other situations where the payment would create hardship for the household would be determined by USDA, in consultation with the IRS.

A collection procedure would have to be established to handle deferred recoupment payments. Some method of tracking food stamp households and of determining whether they were still on the program would be needed. Any procedure to keep track of households with deferred payments would encounter

the problem of household mobility. The longer the period of deferral, the greater the problem. Setting and maintaining procedures to keep track of these households would increase administrative costs. However, not setting up tracking procedures would result in a significant proportion of recoupable benefits being lost.

In addition, households who move during the time they receive food stamp benefits can cause problems for the states and for the IRS. Each food stamp office would only have a record for the household for the period of time the household lived in that area. In order to compile a complete record of food stamp benefits received by the household over the year, the records from several jurisdictions within a state or even from several states would have to be pulled together. If a change of residence coincided with a change in the primary household supporter, or other change in household composition, the Social Security number used to identify the case in the new location could be different than that used in the old location. Under these circumstances, benefit records from the two locations could not be matched, and recoupable benefits might be lost.

6.6.5. Excluding Some Participants from Recoupment. Because of the substantial administrative cost incurred in gathering the information needed for recoupment from all food stamp participants, it has been suggested that certain participants be excluded from recoupment. The most frequently mentioned groups to be excluded are AFDC and SSI recipients.

Data presented in Chapter 4 on the income sources of recoupment households show that 37 percent of all households who participate in the Food Stamp

Program at any time during the year receive AFDC or SSI income. However, only 15 percent receive solely AFDC or SSI. The majority of AFDC or SSI households receive earned or unearned income in addition to their assistance payment. Of those households receiving AFDC or SSI and earned income, a significant number would be liable for recoupment payments at the end of the year. To exclude all households with AFDC or SSI income from recoupment would eliminate 6 percent of the total recoupment amount.

In addition, households who are certified for the Food Stamp Program as purely AFDC or SSI households may change their status over the course of the year. If AFDC or SSI benefits are terminated, or if the household begins to receive other income, the food stamp office would not have sufficient information to allocate benefits for the entire year. Therefore, these households could not be reintroduced into a recoupment system if their source of income changes.

Households receiving AFDC or SSI would have to be identified at certification and then have a flag added to the recordkeeping system so that these households can be excluded from recoupment.

6.6.6. Deferrals. Approximately 5 percent of the households subject to recoupment, accounting for 7 percent of the total recoupment liability, would both (1) still be receiving food stamps at the time their income tax returns are due and (2) owe the IRS some payment beyond the amount that could be deducted from their tax refund. These households would be entitled to defer payment until they are no longer receiving food stamps.

When filing their return, they would simply inform the IRS of their continued participation in the program and omit the payment.

Some additional households could request a deferral under the provision for hardship cases. Although the number of these requests cannot yet be predicted, the evaluation of them to determine whether hardship really applies would clearly be a complex, time-consuming task.

Because of deferrals, the actual recovery of benefits in any given year would be appreciably less than the maximum potential figure noted previously. Some payments would possibly be deferrable for several years running.

Preventing abuse of the deferral provision would be difficult and costly. To check whether a household qualifies, the IRS would have to contact the household's state food stamp agency, which in turn would trace the household's address to the appropriate local office. When the verification had been communicated back to the IRS, offending households would have to be notified and a collection procedure initiated. All this most likely would take six months or more and would cost more than it would recover.

In summary, the implementation of a recoupment system would have a significant impact on states' food stamp certification and recordkeeping systems. All systems alterations are feasible although administrative costs may be substantial. Recoupment savings will have to be compared to the costs of collecting, storing and processing the additional information needed for identifying households and tax units subject to recoupment. This chapter has identified several alternative administrative arrangements possible for incorporating recoupment into the Food Stamp Program. It has also discussed the obstacles to successfully recovering benefits under the various allocation schemes. The degree of recoverability will depend upon the amount of administrative effort and financial support expended for keeping track of recipients and collecting recoupable benefits.

CHAPTER 7

THE INTERNAL REVENUE SERVICE: ADMINISTRATIVE ISSUES AND COSTS

Under the Jefford's plan, the Internal Revenue Service (IRS) would be responsible for recovering recoupment liabilities incurred by food stamp tax units. This would be accomplished either by subtracting the recoupment amount from tax refunds otherwise due, by collecting the amount from the taxpayer or by deferring the liability for later collection.

In order to implement the recoupment plan, the IRS would assume certain new and additional functions. The extent of these responsibilities in many areas would depend upon the final program design, particularly with respect to the allocation scheme selected. In any case, the IRS would have to change its basic forms and the instructions for calculating tax liability and refunds on those forms. It would be required to collect and process new data on millions of individuals and to respond to questions, not only from individuals affected by the recoupment plan, but from many of those not directly affected as well. In addition to collecting liabilities in excess of tax refunds, the IRS would be responsible for developing deferment plans. Additional auditing and management reporting would be also required.

This chapter of the report discusses the role of the IRS in the proposed recoupment plan and the effects that implementation of the plan would have on the IRS. The first section presents a description of the recoupment process; it describes, step by step, the way the IRS would probably implement the plan proposed by Representative Jeffords. The following section discusses a number of the problems that would be encountered by the IRS. Some of these are endemic to any plan that would use the IRS as the agent of recoupment; others

are specific to the plan as proposed and may be alleviated by changing a few parameters and procedures. This section will also note some of the IRS's recommendations, presented fully in Appendix B. The final section of this chapter will present and discuss estimates of the administrative costs of IRS implementation of the suggested recoupment plan, based upon estimates provided by the IRS.

It must be stressed that these estimates are subject to a fair degree of uncertainty. Administrative demands placed on the IRS would vary widely depending on the allocation scheme selected and the specifications of the final plan. For example, costs (and potential savings) are partly a function of the audit rate specified by the program. Congress may wish to increase the usual audit rate for food stamp units in the first years of the plan to encourage compliance with and assess the effectiveness of the plan. This would increase IRS costs. The design of any recoupment plan would, therefore, include trade-offs between recoupment amounts that can be collected and costs to the IRS.

In addition, many of the tasks required of the IRS by the recoupment proposal are very difficult or impossible given existing regulations, procedures and administrative capabilities. For example, IRS regulations do not require Social Security numbers for dependents on tax forms. Therefore, leakages of recoupment liabilities will occur under the per capita and tax unit schemes because dependents and their liabilities cannot be identified and tracked. Thus, a recoupment provision may require changes far beyond the scope of the plan itself.

7.1 THE ROLE OF THE IRS

The first steps in the recoupment process would occur at the level of the local welfare agency. As discussed in the previous chapter, the welfare agency would have to inform recipients of the program's changes, keep track of the benefits paid out to each recipient, send each tax unit a W-X form at the end of the calendar year, and supply the same information to the IRS.

The IRS involvement in the recoupment process would begin when food stamp recipients filed their tax returns. The first step, therefore, would be the creation of revised and/or new forms to collect the relevant data, and the development of sets of instructions concerning their completion. New tables would also have to be developed to enable taxpayers to calculate their recoupment liabilities, based on their AGI, food stamp benefits, and number of dependents.

If the Jeffords plan were implemented as proposed, allocation of food stamp benefits and corresponding liabilities would be made according to relative contributions of various household members to household maintenance.

Since at the time of application for food stamps, the welfare agency cannot determine the annual level of contribution of each household member, either the household itself must allocate liability at the time of filing income tax returns, or a special census of food stamp households would have to be undertaken by USDA to gather this information. Self-allocation of liability may be difficult for families to accomplish, and the IRS would simply have to assume allocation was made correctly, because they would lack any means of

verification. As discussed previously, a census would also cause severe administrative problems and the IRS could not verify relative contributions to income. Thus, it is the view of the IRS and USDA that allocation according to relative contribution to maintenance should be avoided.

In order to allow tax units to determine their recoupment liabilities, the IRS would redesign its individual returns (forms 1040 and 1040A) depending on the specifications of the recoupment plan. For example, they may add a line that refers food stamp recipients to a new form on which the liability would be calculated. Since the processing of an additional form would be an additional expense for IRS and a burden on the food stamp population, the instructions on the individual return might require only households with an AGI over a certain income level (e.g., the lowest recoupment threshold) to complete the additional form. In order to determine the recoupable amount adjusted gross income (AGI) would be compared to the applicable poverty line for the relevant family size. The recoupable amount would be the lesser of (a) the value of the food stamps, or (b) the amount of AGI in excess of twice the poverty line.

If a tax unit determined that a recoupable amount were due, the tax unit would become liable for that amount. If the tax unit were due a tax refund, it would subtract the recoupable amount from its refund. If there were no refund against which an offset could be made, or if the recoupment liability exceeded the refund amount, the portion due the government would be due in cash. All those tax units who were no longer receiving food stamps at the time of filing the tax return would be immediately liable for the recoupment

amount due the government. If, however, the tax unit were receiving food stamps at tax time, the recoupment liability could be deferred. The IRS could put into effect a special periodic payment plan that would be both interest-free and penalty-free during the deferred period. In addition, waivers of food stamp liabilities may be granted to those tax units for whom the amount due in excess of the refund would create a serious financial burden. (The timing of notification to IRS of designated deferrals and hardship cases could also have an impact on administrative costs. This schedule would have to be worked out jointly between USDA and IRS, and incorporated into the regulations.)

The tax returns of food stamp recipients would be processed in the same stream as other individual returns, although some added functions would be required. For example, forms would be checked to see if the food stamp W-X forms and, perhaps, an additional food stamp reporting form were attached. Returns would be keypunched so that, at a later point, calculations could be verified, reported food stamp amounts matched with food stamp W-X files provided by welfare agencies, and filing units selectively screened for further auditing.

As explained, a tax unit which calculates that it has a liability in excess of its refund should send the IRS a check to cover the amount owed. However, because food stamp recipients will be instructed that they can apply for hardship waivers or deferrals, they may not send in their recoupment liability payment. Collection efforts would be necessary for those who either don't apply for, or don't qualify for a waiver or deferral. Thus, the collection process necessitates developing a new relationship between

the IRS and the Food Stamp Program for continuous coordination and transferral of information.

7.1.1. Verification, Audits and Queries. Several factors about the IRS verification and audit process are important in estimating recoupment liabilities. First, at tax time, IRS would make refund offsets and issue liability notifications based on the recoupment liability as calculated by the tax unit. Matching of reported food stamp amounts against the food stamp W-X data tape provided by welfare agencies would not be done until up to one year later. Second, the IRS would not perform any verification of recoupment liability calculations on tax returns at the time of reporting. As in the case of the EITC (earned income tax credit) the worksheets provided by IRS to enable recipients to calculate their recoupment liability would not be collected for verification. Only on those forms selected for audit would calculations be checked, and this process might occur more than a year after the submission of the return.

In addition to the procedural steps involved in determining liability for recoupment and collecting the amounts due the government, the IRS would also have a continuing responsibility for responding to queries about the tax aspect of the recoupment plan. It is likely that the IRS would be asked to respond to written and oral inquiries concerning the proper completion of tax forms, the reduction of refunds for the recoupment amount, and the deferral of recoupment liability. Recoupment liabilities might also be disputed and appealed by taxpayers. The IRS would not be involved in any disputes with recoupment tax units--these would be handled by the Food Stamp Program. However, the IRS would be responsible for directing inquiries to

the Food Stamp Program, and effecting any changes in liabilities that may arise from the appeals, much as they instruct employees to deal with their employers in disputes over income tax W-2's. For example, some units may claim that they did not receive the full amount reported, particularly in states where food stamps are mailed directly to recipients. Others might claim that they did not redeem their authorizations for food stamps. The timing of the receipt of benefits, particularly with respect to calendar year accounting, might also be an issue that will generate inquiries to the IRS. Furthermore, even though only a small proportion of tax units would be affected by recoupment, a large number of inquiries might come from people who did not realize that they were unaffected by the provision.

Another problem which must be resolved is that of food stamp tax units that receive their food stamp W-X's after they have filed. This could occur when the unit has moved, or due to the fact that, because December ATP tapes and actual issuance tapes must be reconciled before W-X form generation, food stamp W-X's may not be sent to food stamp tax units until February, after some filers have already reported. Although tax law requires that an amendment to the tax form be filed if additional W-2's are received, it has not yet been established how these cases would be handled under recoupment.

7.2 ADMINISTRATIVE ISSUES

The preceding section presented each of the administrative responsibilities of the IRS that would be associated with a recoupment plan. This section examines the significant problems that would have to be resolved.

The most important of these problems is the disparity between the definitions of IRS tax units and food stamp households, discussed thoroughly in Chapter 5, and the potential questions and inequities that would be created by the apportionment of food stamp benefits to tax units.

Complications arise because recipients ultimately determine their tax units at the end of the calendar year. The formation and composition of a food stamp household, on the other hand, can change during the course of the tax year. The allocation of benefits to household members and the reporting of this information to the IRS by State food stamp agencies may not exactly match the way in which some households ultimately form tax units for income tax purposes. The IRS would be faced with some reports of benefits on the annual food stamp benefit type submitted by State agencies that could not be matched with 1040 forms, because tax filers neglected to include W-X forms for dependents. The mismatch between annual benefits allocated and tax units formed would also generate many questions from tax filers. Not only would the incongruence of IRS tax units and food stamp households decrease the potential recoupment amount, but it would also create added workload that would not be offset by an increase in recovered benefits.

Other problems would result from changes in the usual IRS methods of tax return processing. For example, the proposed interest-free and penalty-free deferral would require a different tracking system for food stamp recipients than for other tax units. Some of the problems, such as the need for valid Social Security numbers for all food stamp recipients, involve inconvenient adjustments to the food stamp tax systems. The income verification and audits of low income tax returns, for example, would be costly, and might not yield

significant savings to the government in recouped food stamp benefits. Each of these problems is discussed below.

7.2.1 The Collection of Amounts Due. The collection of recoupable amounts from food stamp recipients whose AGI exceeded twice the poverty level would create some new and additional responsibilities for the IRS. When a tax unit that had been determined liable for recoupment was also due a tax refund that was larger than the recoupable amount, the IRS simply would subtract the recoupable amount from the refund. This would require only that the IRS develop a mechanism for making the requisite calculations and refund adjustments. If the recoupment amount were greater than the refund, however, the IRS would have an additional collection responsibility.

As explained in Chapter 3, many household units, although liable for recoupment, might be unable to repay their full liability. Making collections from these households and negotiating repayment plans based upon individual circumstances might be a major administrative burden for the IRS, and it might cause hardship for affected households.

A disincentive to pay back the amount owed for food stamp benefit recoupment would arise in the plan to defer liability if a taxpayer were not scheduled to receive a refund and a cash payment would create undue hardship. If taxpayers believed that recoupment claims would be collected from overwithholding, but might otherwise have been deferred, there might be a tendency to attempt to reduce the amounts withheld for income taxes. This would hamper collection efforts, and would decrease the pool of withheld income available to the Treasury. Furthermore, without the added cost of interest and penalty, the taxpayer would have to be convinced that the recoupment liability had the same significance as any tax liability, and that the IRS

had the same authority to collect both types of payments. Currently, about 98% of all revenue collected by the IRS results from voluntary compliance of taxpayers. However, the IRS believes that the nature of recoupment is substantially different from its normal tax collection functions and that voluntary compliance may be far less successful than it might be were there interest and penalties. If a family were either still receiving food stamp benefits or were awarded a recoupment deferral for reasons of financial hardship the collection process may become still more difficult.

The deferral of recoupment liabilities would require later tracking of the liable individuals. In some cases this tracking might have to continue over a long period of time, if a tax unit continued to received food stamp benefits. Furthermore, all cases where recoupment amounts are owed to the IRS would have to be tracked separately from other tax units, because of the provision that a recoupment debt carries no interest or penalties. Special procedures would have to be set up within IRS to maintain separate accounting for these liabilities and store them for several years for future collection and auditing efforts. In addition, the data collected and stored for recoupment purposes may require the expansion of all IRS files to store and cross check new information on all tax files.

Direct collection costs and returns will be a function of the effort taken to recover liabilities not covered by refunds in the year incurred. At a minimum, IRS may simply send a letter notifying recoupment tax units of their liability. IRS might then simply wait to collect recoupment liabilities from future refunds due to recoupment units; these savings should be discounted over time, as explained in Chapter 3.

It is also possible that withholding patterns for recoupment tax units may change over time. This would occur due to changes in tax law, economic factors, or to an individual's flexibility to adjust withholding patterns. Recently, the IRS has made a concerted effort to decrease over-withholding on the part of tax filers, and stronger efforts may be made in this direction. Smaller withholding amounts will increase costs, as fewer recoupment liabilities will be fully covered by refunds and more time (tax years) will be needed to recover liabilities through future refunds. In summation, any changes in IRS withholding will have a marked impact on recoupment costs and savings.

7.2.2 The Earned Income Tax Credit (EITC). Changes in the earned income tax credit (EITC) implemented in July, 1979 may also affect the availability of tax refunds to cover recoupment liabilities. Although EITC is designed to help the poorest earners with dependents, some tax units would both be encompassed by the phase-down range of the program (the range in which the credit is reduced dollar-for-dollar down to zero for each dollar of income - between $4000 and $8000 in 1975) and subject to recoupment. In essence, the EITC and recoupment may work at odds, providing small bonuses and taking them back. In addition, an inherent conflict exists between the wish of Congress to discourage overwithholding through pay-period EITC payment and the role of tax refunds in containing recoupment administrative costs.

In the past, EITC payments were made after tax returns where filed. The new regulations would allow qualifying tax units to receive payments on a pay-period basis, as reductions in their withholding tax. This change would eliminate lump sum refunds which could have been used to cover recoupment

liabilities, thus providing an incentive to take pay-period payments. This response would increase collection costs. However, pay-period payments would be considered as income* in determining food stamp benefits, which may reduce total recoupment liabilities outstanding. Thus, the end result of the EITC changes may be higher collection costs and reduced payments subject to recoupment.

7.2.3 Liability for Interest and Penalities. As mentioned above, the deferral of recoupment liabilities, without interest or penalty, of tax units that are receiving food stamps at tax time would require a separate accounting and tracking system for these units. In effect it would also establish different liability rules for tax units with refunds due than for those without refunds. Some would have to pay their obligation in April, by an offset to their refund; others could delay payment, or even, under the hardship provision, obtain a waiver of their liabilities. Many tax units would even have different treatments of their own liabilities, having to pay a normal tax obligation by April 15, and at the same time getting a deferral of a recoupment obligation; or having to pay interest on a delinquent tax liability, but paying no interest on a deferred recoupment liability. Such a system would be hard to administer.

In order to promote equity within the Federal tax system, the IRS recommends that taxpayers be treated equally with respect to their obligations to the Treasury. The IRS believes that recoupment liabilities should be treated the same as other tax liabilities collected through the IRS, regardless of the amount of refund or taxes otherwise due

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*Lump sum payments in April will be counted as additions to resources.

and regardless of food stamp status in any particular month. Liabilities would be incurred and payable by April 15, either as an offset against income withheld during the year or as a cash payment. Low-income recoupment tax units would be treated the same as other low-income tax units that face a tax obligation when they file. The IRS would set up a deferred payment schedule with a normal interest charge (usually about 90% of prime rate.)

Such a plan would eliminate the need for separate accounting for one particular tax obligation. The IRS also feels it may help establish the credibility of the recoupment liability as a serious obligation, equivalent in law and implementation to any other tax, and thereby mitigate some of the potential collection problems. However, it may also cause hardship, as well as possibly serve to deter initial program participation among the most needy. Although such a plan would be administratively easier from an IRS point of view, and would promote tax system equity by treating liabilities equally, it would create the odd situation of giving households benefits while levying interest charges on past benefits received.

7.2.4. Income Verification and Audits. Higher collection costs would result if the IRS were to use the audit mechanism to recover recoupment liabilities. Current income tax return processing and refund issuance methods are such that refunds are essentially made on an honor system. The information on income supplied by employers and the information on food stamp benefits supplied by the welfare office might be matched against that reported by taxpayers, but this would occur at a much later date than the time refunds are actually distributed. Because of the volume of activity in the first quarter of the year, audits are not conducted until all returns are processed and acted upon. It

will take at least a year after the filing of the tax return for the IRS to raise issues of amount discrepancies with the taxpayer. In addition to the problem of the timing of matching and audits, some of the information provided by the taxpayer cannot be verified by the IRS. If the recoupment plan were based on an attribution of food stamp benefits according to the proportion of financial support provided the household by its various members, the IRS would have no means of verifying data on the relative contributions of household members to the household support.

Currently, a major factor in determining the concentration of audit efforts is the potential yield. Diverting IRS resources to probable low yield cases, such as recoupment tax units, could prove to be cost-ineffective.

7.2.5. Social Security Numbers. Another problem which may arise in a recoupment plan is that of unmatched and missing food stamp W-X forms. After tax returns are received by the IRS, they would be reviewed to see if the W-X attributing all or a portion of a household's benefits to the tax unit head (depending on the allocation scheme) was attached. (However, if a food stamp household head is listed as a dependent on another tax unit's form, there is no way of matching welfare agency W-X's against IRS returns.) This is due to the fact that, although recently enacted legislation requires Social Security numbers of all food stamp recipients, under the current IRS Act, IRS cannot require the inclusion of Social Security numbers for dependents on tax returns. (Husbands and wives can, however, be cross checked).

This factor would render the per capita allocation scheme nearly unworkable. Under this plan, all members of a food stamp household would attach their food stamp W-X forms to the tax return of a component tax unit. However, only benefit amounts for tax unit heads could be cross checked against IRS files

thus eliminating any incentives to include dependents' W-X's.

7.3 ADMINISTRATIVE COSTS

In response to the legislative mandate for this study the IRS prepared a position paper citing the major administrative problems and outlining cost factors associated with the proposed IRS role in the recoupment plan. IRS considered both fixed costs, such as forms design and systems expansion, and variable costs dependent upon the volume of various activities. Fixed costs were estimated at approximately $4 million, while variable costs ranged from $4 - $10 million, depending upon volume projections. The following is a summary of the IRS cost analysis using volume estimates provided from the microsimulation results (as presented in Chapter 3) and volume-dependent rates provided by IRS. In several cases, where volume estimates were unavailable, ranges are hypothesized.

Under all the recoupment alternatives examined, the IRS would be required to: modify existing procedures, including the redesign of individual tax return forms (1040s and 1040As) and the addition of a new food stamp recoupment form; increase its processing activities; expand its collection activities, including the establishment of separate collection procedures and development of special repayment plans; and handle an increased volume of inquiries both from those directly affected by the recoupment plan and from others seeking clarification. For the following cost analysis it has been assumed that the major program issues have been resolved as follows:

1) Food stamps would be allocated to specific individuals, depending on the allocation scheme used, and liability would be assigned to the heads of the tax unit of which those persons are members.

2) Welfare agencies would report attributed food stamp benefits using procedures analogous to and consistent with employer reporting of W-2 data.

3) Social Security numbers would be obtained and validated for all individuals required to file returns.

4) Criteria would be defined for determining eligibility for recoupment liability deferrals.

The following sections summarize costs to the IRS resulting from changes in current reporting procedures, increases in the processing activity (including inquiries), and increases in collection and enforcement activities. Many of the costs are a function of volume projections. The following key assumptions have been made to estimate costs for FY '80:

6,900,000 tax units that file would receive food stamps

494,000 tax units that file would be subject to recoupment

291,000 tax units that file would have sufficient refunds to cover the recoupment liability

202,000 tax units that file would be liable for recoupments in excess of refunds

25,000 tax units that file would be eligible for deferral

It should be noted that, since the IRS will rely on tax filers to subtract their recoupment liability from their refund, the estimate of the number of units whose liability is fully covered may be an upper bound. Some recoupment units may neglect to subtract their recoupment liability in calculating their refund; this would only be picked up by an audit. On the other hand, all those eligible for a deferral may not apply. This will affect costs incurred by the IRS for setting up individual payment schedules.

Not included in these assumptions is an estimate of the number of tax units that may apply for a waiver under the hardship provision of the plan. The size of this group would obviously increase costs to food stamp agencies, who must determine hardship and relay information to the IRS, so that the IRS can purge its files of units whose liabilities have been waived. The cost of a hardship case to the IRS should, however, be less than a normal collection case. The number of hardship cases would, of course, be a function of the plan's definition of hardship.

Table 7-1 summaries the calculations of the estimated cost to the IRS. The following sections describe the cost elements and their underlying assumptions.

7.3.1. Changes in Current Forms. A major cost in changing the current procedures is the modification of the individual returns and the addition of a form to enable tax units to calculate recoupment amounts. In addition, the IRS may be involved in tax development of the W-X form issued by food stamp agencies. Although the individual return would probably be amended by adding one line directing food stamp recipients to complete the new form, existing forms and instructions would have to be reprinted at an estimated cost of $1,050,000. Most of these costs would be one-time costs, not repeated yearly, since the subsequent yearly costs would not be expected to be substantially greater than current printing costs. The IRS also estimates $156,000 in one-time costs for forms design, procedure writing, and computer system changes. The total estimated one-time conversion costs are, therefore, about $1.2 million.

7.3.2. Increased Processing Costs. The major additional processing cost is for the handling and editing of the additional food stamp information and calculations for units required to file this data. Including the cost of verifying recoupment calculations and notifying the filing unit of refund reduction or balance due, IRS estimates increased costs to be $294 per thousand forms processed, based upon previous experience. If all food stamp filing units were required to complete the food stamp form, this cost would be approximately $2.0 million. (By requiring the additional form only from filing units with adjusted gross income over twice the poverty level,* this cost might be halved.)

Although substantially less than the cost of processing the additional forms, IRS estimated three other sources of additional processing cost, totalling approximately $0.4 million. IRS estimates $189,000 to check the individual returns of all tax units (90,000,000) to see if a food stamp form is attached. An additional $80,000 would be required for increased disk space for computer processing. Finally, an estimated $146,000 would be required for automatic matching of the W-X file provided by USDA with the food stamp value reported by filing units on their individual returns.

7.3.3. Cost of Increased Inquiries. IRS assumed that this program would have an impact on inquiry volume similar to that experienced when the Earned Income Credit was established in 1976. It is anticipated that taxpayers will

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*Since the poverty level is a function of family size, the instruction on the 1040 would probably require filing the additional form if the AGI of the food stamp unit exceeded a specific amount, probably twice the poverty level of a single person. The additional form would be used to calculate how much, if any, recoupment were due.

make 1.4 million contacts with local IRS offices either in person (25 percent) or by phone (75 percent). The cost to handle this increased volume is estimated to be $2.5 million.

In addition to these general inquiries, IRS itemized other categories of inquiries costing $50,000-$112,000 dependent upon volume assumptions: The cost would range from about $40,000 to $80,000 if 10-20 percent of all food stamp households had questions regarding food stamp W-2's. The cost would range from $4,900 to $24,000 if 20-100 percent of those units with refund reductions questioned their status. Finally, the IRS estimates the cost of dealing with questions regarding deferrals would be $8,000 if all those eligible for deferrals submitted inquiries. It was assumed that deferrals would be limited to those receiving food stamps at tax time excluding hardship cases no longer receiving food stamps. As a result, it is likely that questions in this area could be answered rather simply; while determination of hardship cases would be handled by USDA.

7.3.4. Collection and Enforcement. The cost estimates for collection and enforcement of recoupment are the most sensitive to volume projections. The IRS cited four rates for audit and collection activities:

- $17,040 per 1000 for examination contact by mail
- $60,340 per 1000 for examination by local offices, primarily through personal interviews
- $113,310 per 1000 for collecting overdue liabilities
- $55,660 per 1000 for collecting from non-filers.

The IRS did not disclose their policies regarding the examination of present returns. Presumably returns are screened for anomalous responses and significant income before the costly examination process is initiated. Lacking a specified expected coverage, it was assumed that one percent of the population subject to audits would be selected. (Congress may, however, mandate a higher rate in the first few years of the program to ensure compliance.) If one percent of all those food stamp tax units with income levels sufficient for recoupment were examined by mail and another one percent examined by local offices, the combined cost would be about $380,000. However, if one percent of all food stamp tax units were interviewed and another one percent queried by mail, the total cost would be about $5 million. One could argue that because those filing units subject to recoupment would be filing returns regardless of recoupment, there should be no added cost of auditing; certain percentage of all filers including food stamp tax units would be selected for examination. However, for this analysis it was assumed that a fraction of food stamp tax units would be selected to ensure and to measure conformance to a new program. As previously mentioned these efforts might be stronger in the early years of the program. Clearly, if higher percentages were selected the costs would increase proportionately.

Similarly the cost of collections from overdue liabilities and from non-filers is dependent upon volume projections which are difficult to estimate. If one percent of those projected 202,000 units who will be liable for more than their refund require affirmative collection activities, the resultant cost would be $229,000. If one percent of those same 202,000 filing units do not file and require detection and collecting efforts the cost would be $112,000. At a 10 percent delinquency level, these collection efforts would cost almost $2.5 million.

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Table 7-1

SUMMARY OF IRS COST ESTIMATES

Cost Category	Volume Assumptions	Rate*	Cost	
				Range
				Minimum - Maximum
One-Time Costs				
Development Cost				
Printing new forms	independent of volume	--	1,050,000	
Designing new forms	independent of volume	--	23,000	
Computer programming and testing	independent of volume	--	113,000	
Developing procedures	independent of volume	--	20,000	
Total Development Cost			$1,206,000	
Annual Costs				
Increased Processing Cost				
Editing and transcribing				
	if all 6.9 million filing units complete added form	$294 per thousand		2,028,600
	if only 3.45 million filing units complete added form		1,014,300	
Screening all returns for addition form	independent of volume	--	189,000	189,000
Increased disk space	volume dependency not provided by IRS	--	80,000	80,000
Matching returns with W-2s	volume dependency not provided by IRS	--	146,000	146,000
Total Increased Processing Cost			1,429,300	-2,443,600

*Provided by IRS.

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Table 7-1 (continued) page 2

Cost Category	Volume Assumptions	Rate	Cost Range minimum - maximum
Increased Inquiries*			
General Inquiries	assumed same impact as Earned Income Credit	--	2,500,000 - 2,500,000
Inquiries regarding food stamp W-2s		$ 58 per thousand	
	if 1,380,000 (20%) f.s. tax units inquired		80,040
	if 690,000 (10%) f.s. tax units inquired		40,020
Inquiries regarding reduced refunds		$ 49 per thousand	
	if all 494,000 subject to recoupments inquire		24,206
	if all 98,800 (20%) subject to recoupments inquire		4,841
Inquiries regarding deferral of recoupment		$323 per thousand	
	if all 25,000 eligible for deferrment inquire		8,075
	if all 10,000 (40%) eligible for deferrment inquire		3,230
Total Cost of Inquiries			$2,548,091 - $2,612,321
Collection and Enforcement			
Examination by mail		$17,040 per thousand	
	if 69,000 units are examined (1% of f.s. tax units)		1,175,760
	if 4940 units are examined (1% of f.s. tax units subject to recoupment)		84,178

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Table 7-1 (continued) page 3

Cost Category	Volume Assumptions	Rate	Cost Range minimum - maximum
Collection and Enforcement (continued)			
Examination by local offices		$60,340 per thousand	
	if 69,000 units are examined (1% of f.s. tax units)		4,163,460
	if 4,940 units are examined (1% of f.s. tax units subject to recoupment)		298,080
Collections of Overdue Amounts		$113,310 per thousand	
	if 10,100 units (5% of those liable for payment) are processed for underpayment		1,144,431
	if 2,020 units (1% of those liable for payment) are processed for underpayment		228,886
Collections from non-filers		$55,660 per thousand	
	if 10,100 units (5% of those liable for payment) are processed for underpayment		562,166
	if 2,020 units (1% of those liable for payment) are processed for underpayment		112,433
Total Collection and Enforcement			723,577 - 7,045,817
TOTAL ESTIMATED ANNUAL COST			$4,700,968 -$12,101,738

7.3.5. Cost Summary

Based upon IRS estimated unit costs, projected volumes and hypothesized inquiry, audit, and collection ratios, the IRS administrative costs associated with implementing the proposed recoupment plan would be:

One time conversion costs	$1.2 million
increased annual processing	$1.4 - 2.4 million
increased annual inquiries	2.5 - 2.6 million
increased annual collection and enforcement	0.7 - 7.1 million
total increased annual costs	$4.6 - 12.1 million

These estimates, particularly for collection and enforcement, are sensitive to the assumptions of expected volumes and would vary depending upon the parameters of the recoupment policy.

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APPENDIX A

On June 12, 1979, Representative James Jeffords of Vermont introduced a recoupment bill in the House of Representatives similar to the one he introduced in 1977. Some of the design parameters were modified in the new bill while some were retained exactly as in the previous version. Several of the modifications from the previous version are actual changes while others simply provide more specific directives for implementing the recoupment system.

The recoupment rate, calculation and treatment of the liability, and the treatment of married couples are left unchanged in the new bill. That is, the recoupment rate is maintained at 100 percent; liabilities are calculated as the lesser of adjusted gross income minus threshold or annual food stamp benefits; the tax unit will not incur any interest or penalty if payment is not made immediately; and married couples are to be combined as a single individual for benefit allocation.

It is in the design of the allocation scheme that the 1979 Jeffords Amendment differs substantially from the 1977 proposal. The new bill allocates all household benefits to the individual who provides at least 80 percent of household maintenance for any period rather than for the calendar year. Furthermore, a proportional share of household benefits is allocated to individuals for any period in which they do not provide at least 80 percent of the maintenance.* Within the Food Stamp Program, the most readily

*Currently there is a mistake in line 20, page 3 of the bill, H.R. 4429, which reads "and" rather than "or"; were liability assigned both in total to the 80 percent contributor and in proportional amounts to other contributors, greater than 100 percent liability would be allocated.

identifiable discrete time period is the certification period, the span of time between food stamp certification and recertification. The new amendment thus resembles the modified Jeffords plan that is discussed and costed out in the main text of this report.

Other parameters of the new plan are as follows. The threshold has been set at twice the highest income standard of eligibility in the Food Stamp Act. Currently that standard is the poverty line and the recoupment threshold is twice the poverty line. However, if the standard is changed, the recoupment threshold under the 1979 plan will change with the standard.

The 1979 version specifies that the recoupment threshold is to be measured for any household of which the individual has been a member. Instead of using the tax unit size, as specified in the original Jeffords Amendment, this may be interpreted to mean the smallest household size for that year. Regardless of how the household size clause is interpreted, this information is difficult for the IRS to verify.

Provisions for deferrals and waivers are also slightly different in this version. If an individual is receiving food stamps when his or her liability is due, then the total liable amount may be deferred until the individual is no longer a program participant. This differs from the 1977 plan which allowed deferral only of the liability in excess of the tax refund used to offset the amount of recoupable benefits. The determination of hardship, in the 1979 amendment, may result in either deferral or waiver of liability whereas the previous version only included a waiver provision for hardship cases.

Administrative functions are again divided between the Department of Agriculture (USDA) and the Internal Revenue Service. However, major changes were inserted with respect to these functions in the new amendment--some of which create new problems for the recoupment system. For example, USDA is now to be responsible for sending a notice to the Treasury that includes the name and address of each individual who participates during the year, the allotments received by each household, and any other information as necessary.

In addition, the IRS is responsible for both the assessment and collection of liabilities, through a new unit to be established within the IRS. There is no mention in this version of sending a notice to individual recipients from which they report the amount of food stamp benefits received for the year. The shifting of the liability calculation from the individual to the IRS may have been made to minimize the diffusion of this reponsibility and centralize it within one agency. Such a procedure would result in complications because the IRS does not have access to annual household income information, which is needed for determining the allocation of households' benefits among their members. Food stamp offices do not have access to this information either, and could not provide it to the IRS. The IRS only collects annual income information for the tax unit that files a federal tax return, which in many cases is a different unit than the food stamp household. Thus the IRS would not have information with which to calculate the recoupment liability for a tax filing unit. The collection of this information would thus require a survey after the close of the tax year of all households that had participated at any time during that year.

In general, the recoupment savings under the 1979 Jeffords Amendment would be somewhat less than the amount recoupable under the 1977 plan. To determine liability under the new plan, individual income is measured against the size of the food stamp household. The old plan matched individual income against the threshold for the tax unit size. Often, the tax unit was smaller than the household so when most of the household's income was received by a smaller tax unit more money would have been subject to recoupment under the 1977 scheme. The advantage of switching from tax unit to household as threshold determinant is that the inequities related to the noncoincidence of tax units and households would be eliminated.

If we assume for the reasons discussed above that individuals are allowed to self-report their own liabilities on their income tax returns, administrative costs should remain the same as under the modified Jeffords plan discussed in chapter 6.

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APPENDIX B

FOOD STAMP RECOUPMENT THROUGH THE TAX SYSTEM

Internal Revenue Service
Legislative Analysis Division
March 1979

The following is the text of the staff paper prepared by the Internal Revenue Service.

INTRODUCTION

In enacting the Food Stamp Act of 1977, Congress stipulated that the Secretary of Agriculture conduct a food stamp recoupment study. Specifically, section 17(d) of this Act contained in P.L. 95-113 mandates:

> "Notwithstanding any other provision of law, the Secretary [of Agriculture] shall, in consultation with the Secretary of the Treasury, conduct a study, through the use of Federal income tax data, of the feasibility, alternative methods of implementation, and the effects of a program to recover food stamp benefits from members of eligible households in which the adjusted gross income of members of such households for a calendar year (as defined by the Internal Revenue Code of 1954) may exceed twice the income poverty guidelines set forth in section 5(c) of this Act. Such study shall be conducted in rural and urban areas only on a voluntary basis by food stamp recipients. The Secretary shall, no later than twelve months and eighteen months from the date of enactment of this Act, report the results of the study to the Committees on Agriculture and Ways and Means of the House of Representatives and to the Committees on Agriculture, Nutrition, and Forestry and Finance of the Senate, together with such recommendations as the Secretary deems appropriate."

This report describes the study undertaken by the Internal Revenue Service as requested by the Department of Agriculture.

SCOPE OF STUDY

In a joint meeting between representatives of the Department of Agriculture and the Internal Revenue Service held on November 8, 1978, it was agreed that the IRS would study one major recoupment alternative in order to draw a conclusion and make recommendations regarding the feasibility of this and other alternatives. The alternative studied generally follows the proposed Jeffords' Amendment with several minor modifications described subsequently.

The scope of the report is, therefore, limited to a description of the recoupment alternative studied, the estimated costs of implementing this alternative, and a discussion of the problems identified and the conclusions or recommendations which could be drawn. The scope of the study was further limited by the lack of volume projections and by the unavailability of specific food stamp case information which the Department of Agriculture determined could not be disclosed to IRS. Absent this information, it was impossible to provide a cost-benefit analysis of potential recoupment amounts versus the projected administrative costs of recouping these amounts.

STUDY FINDINGS

General

The Internal Revenue Service has a long-standing policy of attempting to maintain the integrity of the tax system by limiting its function solely to the collection of taxes. For example, IRS vigorously objected to the use of the tax mechanism as a means of collecting delinquent child support payments. As a result, Congress stipulated that the IRS mechanism would be used only after all other administrative efforts had failed.

The reasons for this objection are valid. Today over 98 percent of all revenue collected by the Internal Revenue Service results from voluntary compliance. This is possible because of the long-established reputation of the IRS as a fair, effective and efficient collector of tax revenues. For reasons explained in detail later in this report, the administration of a food stamp recoupment program could seriously threaten this public image and erode the existing level of voluntary compliance with the tax laws. In administering a food stamp recoupment program, which requires reclaiming amounts properly given to people to meet emergency needs, IRS would become the Federal Government's loan collection agency. On a cost benefit basis, there is a high risk that minor immediate gains in revenue from recoupment could mean a much greater long-term cost to the Government if it jeopardizes the effectiveness of the tax administration system. For these reasons IRS is opposed to any use of the tax system as a vehicle for food stamp recoupment.

Listed below is a summary of the problems identified in the study of one recoupment alternative. Most of these problems are inherent in any alternative contemplated. When possible, recommendations for solutions to these problems are also included.

Problems and Recommendations

This study of one recoupment alternative, based on the assumptions contained in the section titled Cost Estimates, has led to the identification of the following problems, some of which are inherent in any alternative contemplated. These problems are listed below. Where possible, recommendations for solutions are also included.

I. Problem: Monthly vs. Annual Accounting Periods. Food Stamp eligibility is based on income received (and assets available) in the month prior to the month in which the request is filed. The accounting period for individual income taxes is a full year, normally a calendar year. An individual may be legitimately entitled to food stamp benefits for one or more months and still incur a tax liability for the year as a whole.

The philosophical basis for recoupment would give food stamps to individuals who may have emergency or short-term need for this supplement to income, but would force these individuals to repay these benefits once they achieved a certain level of income. For purposes of this study, an income level of two times the poverty level was used. Therefore, whether recouped through the tax system or through another agency, food stamp benefits would be a loan by the Federal Government to those individuals who may need them only temporarily and a grant for those who need them for longer periods of time.

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not readily convert to a tax filing unit (taxpayer and dependents) in many cases. In addition, the tax filing unit is not finally determined until the end of the tax year, e.g., marital status is determined as of the last day of the year, whereas food stamp eligibility is determined monthly. The number of members in a food stamp household unit may change from month to month.

In order to recover or recoup food stamp benefits, the IRS must have information on recipients in terms of tax filing units. For example, if a taxpayer receives benefits based on the number of members living in his or her house, the agency responsible for reporting to IRS must be able to determine the value of these benefits on a tax filing unit basis, i.e., convert food stamp households to tax filing units. If a household unit changes over the course of the year, a more complex conversion would be required.

The simplest method of converting from household units to tax filing units would be to attribute the entire benefit to the individual who is assigned to receive the food stamp benefits. This could result in inequities, including arrangements that assign receipt of the benefits to individuals who will have no taxable income.

Another alternative which is feasible, but which would probably result in little or nothing to recoup because of the limited or non-existent income of dependent children, is that of attributing a share of the food stamp benefits to each member of the household. A third alternative would be to attribute the children's (or other dependents') shares of food stamp benefits to the adult responsible for their support.

For tax purposes, the responsible adult would be the individual who claims the dependents.

Recommendation: Use IRS support and head-of-household criteria in determining eligibility for food stamp benefits. This would significantly reduce the problem of converting households to tax filing units. If this problem cannot be solved, it would be virtually impossible for IRS to administer any food stamp program.

III. Problem: Invalid Social Security Numbers (SSN's). Whatever the method of attribution, no recoupment system is feasible without having valid social security numbers for each designated recipient to whom benefits are attributed. The IRS could not begin to handle recoupment information unless this information is reported by SSN. If benefits are to be attributed to those who can or will be claimed as dependents for tax purposes, a significant further complication is introduced into the tax system since Congress has specifically stated that IRS does not have the authority to require SSN's of dependents on an individual tax return. This prohibition would prevent the operation of a matching program by the IRS, since it is impossible to match information without SSN's.

It is unlikely, however, that such an effort, i.e., requiring and using dependent SSN's, would be cost beneficial due to the very significant expense which would be incurred by food stamp payment offices in obtaining numbers, the Social Security Admnistration in issuing and validating numbers, and by the Service in securing missing numbers and processing all the identification information. IRS experience, in obtaining valid SSN's of spouses on joint returns,

is that such a process is very expensive and takes a number of years to become fully operational.

Recommendation: If IRS is to be involved in food stamp recoupment, amend the law to require an SSN for every member of a household receiving food stamps. In addition, if a strong enforcement program is desired in order to detect nonfilers and underreporters of food stamp benefits, legislation is needed to amend the Internal Revenue Code to require that an SSN be shown for every dependent claimed on a tax return.

IV. Problem: Recoupment from Refunds. The recoupment alternative costed by IRS was based on the assumption that recoupment would be made against refunds, both for individuals who are still receiving food stamps and those who are not. However, if taxpayers who are still receiving food stamps are not entitled to refunds, recoupment would be deferred for six months. In these cases, taxpayers would be subject to recoupment only after they inform IRS that they no longer receive food stamps. Special periodic payment plans would be put into effect for taxpayers who were liable for recoupment but had no refunds against which recoupment could be made. The amount for which the taxpayer is liable would be both interest and penalty free during the deferred period.

Under this alternative, the Government would have in-hand recoupable amounts from all recipients who are liable for recoupment and who would otherwise receive refunds. Because taxpayers who

are employed for only part of the year are subject to withholding rates designed for the whole year, they are often overwithheld on their wages. Therefore, the taxpayers who are the most likely to be subject to recoupment because of their part-year earnings, are also the most likely to be overwithheld with a substantial refund at the end of the year.

However, if refunds are primary targets for recoupment and the liability for recoupment is deferred in the absence of a refund, taxpayers may alter their withholding to preclude any possibility of a refund. If this practice became widespread, it could significantly raise the cost of collecting taxes by increasing the amount of uncollectible money owed by low income taxpayers who do not have the resources with which to pay. In addition, taxpayers qualifying for the earned income credit will now have a reduced net withholding rate in order to receive the credit on a current basis. Because of these new withholding procedures, refunds for many low income wage earners will be reduced. Under these circumstances, refunds may not be a viable source to tap for recoupment.

Another problem with the proposal to utilize refunds as a primary source for recoupment lies in current IRS processing procedures. Food stamp amounts to be reported to IRS on W-2's would be matched to the amounts reported by taxpayers, but this matching would not be done until after the tax return is processed and refunds, if applicable, are issued. Becuase IRS cannot match information for W-2's before the tax return is processed, normal procedures would not allow recoupment from refunds in cases in which food stamp benefits are not reported or are underreported.

Recommendation: Taxpayers receiving refunds should not be placed at a disadvantage with respect to liability for recoupment. The recoupment rules should establish the date of liability for recoupment irrespective of whether or not a refund is due. Although collection may be deferred upon agreement between the taxpayer and IRS, the liability date should be the date for determining interest and penalties.

V. Problem: Inapplicability of Penalty and Interest. Amounts subject to recoupment which are not timely reported or paid should be subject to interest and penalties similar to those for other tax deficiencies. These rules must be applied uniformly to all taxpayers and to all types of deficiences collected by IRS. To attempt to do otherwise would unduly complicate tax administration. Applying a different standard, such as not applying penalties and interest, would penalize honest taxpayers who accurately report their liabilities. In addition, deferment of interest and penalities on recoupment amounts would require a separate accounting and collecting system.

Recommendation: If recoupment is to be administered by IRS, recoupment amounts must be treated as tax liabilities, subject to the same penalties, interest, and administrative provisions as are all other income taxes.

VI. Problem: Income Verification. It is unclear what the Service would be expected to do in the examination area for food stamp recipients. Examinations based upon return characteristics would seem to be inapplicable to food stamp recoupment at least until many years of operational experience were available.

Recommendation: The alternative would be to process and match all the information received from the payers against the information reported by filers and then initiate contacts in discrepancy cases. This is an undertaking which would require the expenditure of significant resources.

Cost Estimates

Assumptions

On November 8, 1978, representatives of the Internal Reveune Service and the Department of Agriculture met to develop the assumptions for a food stamp recoupment program that could be administered by IRS. The recoupment alternative studied is generally based on an amendment to the Food Stamp Act proposed by Congressman Jeffords. At that meeting, IRS expressed reservations on whether certain of the assumptions could realistically be implemented but agreed to provide cost figures based on these assumptions and to provide a narrative discussion of the anticipated problems with this approach.

The alternative studied by IRS was based on the following assumptions:

1. In order to determine the recoupable amount, adjusted gross income (AGI) would be compared to the applicable poverty line. The recoupable amount would be the lesser of (a) the value of the food stamps or (b) the amount of AGI in excess of twice the poverty line. For example, individual X receives $300 in food stamps. X's AGI is $13,200. The relevant poverty line is $6,500. The recoupable amount in this case is the lesser of:

   (a) The value of food stamps = $300

   (b) $13,200 (AGI) - (2 x $6500) = $200

   Accordingly, the recoupable amount would be $200.

2. There are three separate poverty lines for this purpose; one for the 48 contiguous States, another for Alaska, and a third for Hawaii. This poverty line information will be available in July of the applicable year. For example, the poverty line data for the 1978 returns would be available July 1978. The poverty line data will vary by family size also within each of the three tables.

3. The food stamp benefit will not be considered part of AGI.

4. Those still receiving food stamps at the time they file their tax returns, and who have a potentially recoupable amount, will note on their returns that they are still receiving food stamps and, therefore, are not currently liable for the recoupment amount but are subject to deferred recoupment. IRS would record this fact, but take no action based on it. These amounts would be deferred until the Service is informed that these individuals are no longer receiving food stamps.

5. In all cases, recoupment will be made against any refund amount. This, in effect, overrides 4 above for those with a refund.

6. For those with deferred recoupment (as in 4 above), IRS would send a notice about six months after the return is filed to determine whether they are still on food stamps. Only those who affirmatively respond that they are not currently receiving food stamps would then become liable for the recoupment amount.

7. For those who owe money, but are not currently on food stamps and do not have refunds against which an offset may be made, a special periodic payment plan would be put into effect and the liability amount would be both interest free and penalty free during the deferred period.

8. At the end of every calendar year, every food stamp recipient would receive a W-2 type form containing name, address, social security number, and food stamp amount. This form would be provided to the recipients by the end of January. In addition, a copy of this information would be supplied for the use of IRS in a computer medium by the end of February. The individual would be supplied a copy to include with his/her tax return.

9. Information would be supplied to the Service and the recipient on a tax-filing unit basis.

10. Information supplied would contain validated SSN's. This means that a SSN will be supplied which has been checked against the Social Security Administration's records for accuracy and consistency, i.e., the number is a correct number and the name is the correct name for the number.

11. IRS will bear, on a reimbursable basis, the cost of undertaking additional collection and audit action for those subject to recoupment. Presumably this additional effort would involve pursuing collection cases below the current tolerance levels and conducting audits above our audit plan rate for the particular AGI levels. In this regard, it should be noted that the current recoupment figure for a family of four in the 48 contiguous States is about $13,000. The Department of Agriculture would pay for the increased coverage.

Cost Qualifications

Several qualifications to the cost data provided below are essential to an understanding of the costs as presented:

1. The General Counsel of the Department of Agriculture determined that food stamp case information could not be disclosed to the IRS for purposes of this study. Without having access to the projected recoupable amounts based on actual case data, IRS could not compile data from its master file for use in the study. Consequently, it was impossible to provide a cost-benefit analysis.

2. Composite costs per thousand cannot be inferred from the data presented in the cost table. Because no volume estimates were provided by the Department of Agriculture, the IRS was unable to determine the volume of items for each operation to use as a basis for costing. For example, we know that 1,000 returns will not generate 1,000 audit cases, 1,000 taxpayer inquiries, or 1,000 cases requiring collection action, but it was impossible for IRS to project what these ratios would be without actual experience or case data from which to project. Therefore, it was necessary to estimate costs in terms of costs per thousand returns, inquiries, cases, etc., but these costs cannot be added together to arrive at a total cost per thousand returns.

3. Cost data assume that food stamp households (the unit used to determine eligibility for food stamps) can be converted to tax filing units (the unit for reporting tax liability). State and local agencies which grant food stamps must be able to correctly attribute food stamp benefits in order to provide correct food stamp benefit reports to IRS. It is imperative to note here that unless an effective means of attributing benefits based on tax filing units can be found, no recoupment alternative would work, even if the cost estimates were doubled or tripled.

4. Cost data assume that food stamp benefit information can be provided to the IRS and to the recipient to meet the time schedule for wage data currently prescribed by IRS for all employers. For example, the food stamp information must be provided in W-2 type form to the recipient by January 31 and for the use of the IRS by the end of February of the year following the end of the year for which the information is being reported. The information must be reported in a magnetic medium which indicates benefits and contains valid social security numbers for all recipients. If the State and local agencies which grant food stamps are unable to meet these requirements, this alternative is not viable and the costs are irrelevant. If the agencies can meet these requirements, the substantial costs incurred by them to provide this information must be included as part of the total costs of implementing this alternative.

RETURNS PROCESSING

To identify the affected returns during processing. This cost is to look at each of the estimated 90,000,000 1040's and 1040A's filed to identify which returns have a food stamp form attached. The assumption is that this would take one second per return. Calculations include this cost plus a fixed standard rate for quality review and overhead.	$189,000
To edit and transcribe necessary information from the affected returns. This calculation is based on the historical cost of processing an additional form. This includes not only entering the response to the food stamp question but also various programming costs such as the computation of the recoupable amounts and notification to taxpayer if refund is being reduced, computer generated notices if the taxpayer is liable for recoupment and still securing food stamps when the return is filed.	$294 per thousand

MATCHING INFORMATION

To automatically match and process information reported by payers and payees. This is the historical cost to match a line item on the 1040 reflecting the food stamp amount with a tape from the Agriculture Department at our National Computer Center. It should be noted that to have an effective matching program all food stamps information items would have to be matched, not just those for individuals with income exceeding recoupment levels.	$27 per thousand

ASSISTING TAXPAYERS

(The impact of the Food Stamp Recoupment Program under this heading was assumed to be similar to the impact of the Earned Income Credit program when it was implemented in FY 1976.)

General Program Cost This is based on the above assumption and historical data. We anticipate 1.4 million contacts or inquiries by taxpayers. Seventy-five percent of these will be handled by telephone and 25 percent will be handled in our office "walk-ins."	$2,500,00

Reducing refunds for recoupment amount. This is the cost to handle inquiries from taxpayers when their refund is reduced because of this Food Stamp Recoupment Program. Historical data are used.	$49 per thousand
Inquiries concerning food stamp W-2 type forms. All Food Stamp recipients will receive a W-2 type form. Our historical data indicated a certain number of inquiries related to the W-2.	$58 per thousand
Inquiries concerning deferred amounts. Taxpayers still on food stamps at the time they file their tax returns are subject to deferred recoupment. IRS will send a notice in six months to determine if they are still on food stamps. (This cost was included under returns processing.) The costs included here are based on historical data indicating a certain percentage of taxpayer inquiries.	$323 per thousand

DISCLOSURE OPERATIONS

Included are costs to develop, implement, and maintain new procedures to accommodate disclosure of this additional return information, to provide additional guidance and support to taxpayer service personnel, to respond to written and oral inquiries, and to conduct safeguard reviews of State and Federal offices which will share, store or utilize the new food stamp data and "W-2" type forms. This activity results from the need to disclose tax information to food stamp offices in instances where the recipients dispute the amounts.	$19,950

COMPLIANCE

(Historical data indicate a cost for our examining and collecting functions when the examining of a certain return and/or the collecting from a certain taxpayer is initiated from the matching of information documents against our master file. These are listed below.)

Examination contact by mail from one of our Service Centers	$17,040 per thousand

Examination by local offices	$60,340 per thousand
In these examinations taxpayers are asked to verify information entered on the return. Examinations will for the most part be through personal interviews.	
Collecting overdue amounts by local offices. Collecting on filed returns where an amount is owed but not paid.	$70,240 per thousand
Collecting from nonfiler cases through a local office. Returns secured from nonfilers are usually accompanied by payment of taxes.	$52,040 per thousand

DATA SERVICES

Developmental	
This figure includes staff hours for systems analysis, programming, and systems testing.	$113,000
Hardware	
This figure covers the leasing of IDRS disk packs and drives for each of our ten service centers. IDRS is a system for immediate access to certain tax account information. Such access is necessary for active cases in order to respond to inquiries and effect account adjustments.	$80,000

FORMS PRINTING COSTS

Forms for reporting of food stamp payments and changes to individual tax returns. These include costs for: a line on Forms 1040 and 1040A; approximately one page of instructions for Forms 1040 and 1040A; a W-2 like form which would be sent to taxpayers by Food Stamp issuer; a separate schedule for taxpayers to calculate amounts owed to the Government; a mailout notice.	$1,050,000
Cost of mailing notices to individuals with deferred recoupments	$105 per thousand

FORM DESIGN COSTS

Cost related to the development and design of forms. This includes costs to develop or revise appropriate forms, instructions and publications, to answer congressional correspondence, and to provide technical assistance to our data processing function and our field offices.	$23,300

CONCLUSION

Because of the inherent problems in any food stamp recoupment alternative, the IRS is reluctant to get involved in any such effort. If, however, IRS were assigned the responsibility for recoupment, the most viable alternative seems to be to require food stamp benefits to be reported as "other income" and to tax the total income under the graduated income tax structure.

Under such a proposal,if an individual were to receive $6,000 in wages and $3,000 in food stamp benefits, he or she would be subject to tax as if $9,000 in wages had been received. Even though the Service has not been requested to cost such a system, it seems probable from the IRS perspective that such an alternative could be expected to have administrative costs lower than the recoupment alternative studied by IRS. Implicit in such a proposal is that any additional tax resulting from recoupment would be an integral part of the total tax liability and the tax liability, as a whole, would be subject to the imposition of interest, penalties, etc. This alternative would establish one set of rules for all taxpayers regardless of their State of residence and whether or not they were still receiving food stamp benefits or had a refund due.

Several of the problems identified in the alternative studied would still be encountered in trying to implement the "other income" alternative. The most crucial are the joint problems of converting food stamp households to tax filing units and providing timely, accurate, and complete information to IRS. If these problems cannot be successfully overcome, there is no way that any food stamp recoupment program can be integrated with the tax system.

Significant, in terms of its cost impact, is the problem of providing forms and instructions and of answering taxpayer inquiries, even if a provision has rather limited applicability. For example, instructions would have to be provided, and additional lines added, to both the simple Form 1040A and the more comprehensive Form 1040 in order to explain the rules of food stamp recoupment and allow recoupable amounts to be shown on individual tax returns. Because this will force all taxpayers to wade through these instructions to find out whether or not they are affected, adding these provisions will complicate tax returns. This would be a backward step in the continuing effort to reduce paperwork and to simplify Federal tax forms and instructions.

Currently IRS's resources are strained to the limit. There are already areas which would yield substantial revenue to the Federal Government which are not pursued vigorously because of limited resources. If IRS were required to incur the costs of administering a food stamp recoupment program without adequate funding, the net result would be reflected in a substantial reduction in revenue collected from compliance operations as resources were diverted from existing programs to recoupment efforts. Therefore, it is essential to find some means of directly reimbursing IRS appropriations for actual costs incurred in administering any facet of a food stamp recoupment program.

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APPENDIX C

TECHNICAL APPENDIX: THE SIMULATION

PART ONE: DERIVATION OF CONTROL TOTALS FOR ANNUAL BONUS DOLLARS AND ANNUAL EVER PARTICIPATING HOUSEHOLDS

I. Introduction

Control values for the total annual bonus value dollars and the total number of annual ever participating households for the Food Stamp program for 1975 are derived in this appendix. These values are developed from the Characteristics of Food Stamp Households: September 1976 (SHC) for the survey month of September 1975. The survey was conducted by the U.S. Department of Agriculture's Food and Nutrition Service.

The general procedure adopted for expanding this survey month bonus estimate into an aggregate annual bonus estimate is as follows:

A. Old Law Food Stamp program for 1975

(1) Estimate on a cell-by-cell basis a total monthly bonus dollar distribution by multiplying the number of food stamp households estimated to be participating in the typical (survey) month times the average monthly bonus paid to these households as reported on the survey;

(2) Expand the cell-by-cell total monthly bonus dollar distribution into a total annual bonus dollar distribution by multiplying the monthly amount times twelve;

(3) Adjust the total annual bonus dollar distribution to administration data on actual aggregate program costs for 1975.

B. New Law Food Stamp program (deflated to 1975)

(1) Compute the change in total monthly bonus dollars for the 1978 typical month estimates between the New (without EPR) and Old Laws for each income level;

(2) Multiply the 1975 Old Law total annual bonus dollar distribution by the income class-specific adjustment factors.

C. Estimate the number of annual ever participating food stamp households by expanding the typical month survey estimate of the number of hosueholds participating times a constant factor which measures the ratio of the typical monthly caseload to the annual ever caseload.

II. Controls for Total Annual Bonus Dollars

A. Old Law

1. Number of households on program in September 1975 SHC (table 48) * average monthly bonus paid in September 1975 SHC (table 54) * 12 months = Total Annual Bonus Dollars Under Old Law (table C-1).

2. (Table C-1) * 1.0278 = Total Annual Bonus Dollars Under Old Law (adjusted for administrative data on actual program costs):

$$\frac{\$4,584}{\$4,460} = 1.0278,$$

where $4,584 is the exact cost of the Food Stamp program for 1975 for the 50 states plus D.C.

B. Adjust each cell entry in table A-1 by factors which measure the ratio of the MATH estimate of Food Stamp program dollars for 1978 between Old and New Law (Without EPR) for each income level[1] = Total Annual Bonus Dollars Under New Law (Without EPR Households) (table C-2):

Income Level i	Factor i
1	1.0064
2	1.0451
3	1.0840
4	1.0095
5	.9527
6	.9493
7	.9047
8	.8699
9	.8699
10	.8826
11	.8826
12	.5651
13	.5651
14	.5651

[1] See Harold Beebout and Allen Kendall, Estimates of Food Stamp Eligibles and Participants Under Old and Eligibles Under New Law for July 1978 (Washington, D.C.: Mathematica Policy Research, Inc., March 1979).

where factor i = income level-specific total bonus dollars and is calculated as follows:

$$\frac{\text{New Law (Without EPR Households)}_i}{\text{Old Law}_i}$$

III. Controls for Annual Ever Participating Households

A. Number of households on program in September 1975 SHC (table 48) * turnover factor that estimates the relationship between a typical or average monthly caseload and the annual ever participating caseload. Recent estimates of this turnover factor are in the range 1.4-1.6.[1]

Therefore, the Old Law Control Households are calculated as follows:

5,217,000 * 1.5 ≅ 7,800,000

B. New Law (Without EPR) Control Households are calculated as follows:

1. 1978 MATH typical month estimates

   a. Old Law: 5,065,000

   b. New Law (Without EPR): 4,933,000

2. 1975 September SHC typical month estimate (table 48): 5,217,000

3. Difference between (1.b) and (1.a): $\frac{(1.b)}{(1.a)} = .9739$

4. Adjusted New Law (Without EPR): (3) * (2) ≅ 5,081,000

IV. Poverty thresholds for 1975 by size of family (recoupment threshold for Jeffords plan is poverty threshold times 2.0)

A. Census (used for Old Law)

Family Size	Threshold
1	$2,717
2	3,485

[1] See Ricardo Springs, An Analysis of Food Stamp Participation Patterns in Denver, Colorado - 1972, (Washington, D.C.: Mathematica Policy Research, Inc., March 1977), pp. 38-41 or Ricardo Springs, Food Stamp Participation Patterns in Seattle, Washington - 1971, (Washington, D.C.: Mathematica Policy Research, Inc., September 1977), pp. 36-39.

Family Size	Threshold
3	4,269
4	5,469
5	6,463
6	7,272
7+	8,939

B. FNS (used for New Law)

Family Size	Threshold
1	$2,760
2	3,640
3	4,520
4	5,400
5	6,280
6	7,160
7	8,040

(+ $880 for each additional person)

C. Program Breakeven Level[1] (used for New Law)

Family Size	Threshold
1	$3,985
2	5,885
3	7,685
4	9,285
5	10,735
6	12,485
7	13,685
8	15,385

(+ $3,435 for additional person)

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[1] Computed for each filing unit size on a monthly basis as follows:

$$BE_m = \frac{\text{Max BV} + .3(\text{Std. Ded.})}{.24}$$

where BE_m = monthly breakeven level,

Max BV = maximum monthly bonus, and

Std. Ded. = total standard deductions.

The monthly breakeven level is multiplied by 12 to derive the program's annual breakeven level.

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TABLE C-1

TOTAL ANNUAL BONUS DOLLARS UNDER OLD LAW, BY
UNIT SIZE AND GROSS MONTHLY INCOME, 1975

(in thousands)

Gross Monthly Income	Unit Size								Total
	1	2	3	4	5	6	7	8	
$0 or <0	32,256	28,080	47,616	31,104	23,040	21,312	15,000	10,548	208,956
.01 - 99	54,696	55,776	36,600	26,712	6,768	10,224	11,808	6,936	209,520
100 - 199	259,200	180,960	152,796	142,416	84,624	45,600	13,500	24,384	903,480
200 - 299	53,580	268,836	286,416	187,128	94,080	65,664	49,664	72,300	1,077,648
300 - 399	5,184	70,992	181,248	256,032	175,908	108,108	62,496	69,264	929,232
500 - 599	102	7,200	19,200	35,400	51,504	57,036	52,392	65,232	288,066
600 - 699	240	3,036	7,776	17,028	22,572	24,948	21,432	62,928	159,960
700 - 799	0	324	3,168	6,720	7,488	8,736	11,700	24,852	62,988
800 - 899	0	168	648	4,200	4,416	2,856	6,048	13,860	32,196
900 - 999	0	0	108	444	1,440	1,440	1,368	6,720	11,520
1000-1099	0	0	0	840	180	1,032	576	4,920	7,548
1100-1199	0	0	0	0	0	984	696	3,780	5,460
1200 +	0	0	0	0	0	780	468	1,836	3,084
Totals	406,218	632,484	784,536	812,820	596,220	457,740	318,408	450,030	4,460,000

NOTE: Multiply each cell entry by 1.0278 to obtain the final control used in the simulation.

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TABLE C-2

TOTAL ANNUAL BONUS DOLLARS UNDER NEW LAW (WITHOUT EPR HOUSEHOLDS), BY UNIT SIZE AND GROSS MONTHLY INCOME, 1975

(in thousands)

Gross Monthly Income	Unit Size								Total
	1	2	3	4	5	6	7	8	
$0 or <0	33,367	29,047	49,255	32,175	23,834	22,046	15,516	10,911	216,150
.01 - 99	58,750	59,910	39,313	28,692	7,269	11,003	12,683	7,450	225,048
100 - 199	288,783	201,613	170,235	158,671	94,283	50,805	15,040	27,167	1,006,596
200 - 299	55,600	278,969	297,211	194,182	97,626	68,139	51,515	75,025	1,118,266
300 - 399	5,087	69,668	177,866	251,255	172,626	106,091	61,330	67,972	911,895
400 - 499	939	16,740	47,894	102,516	121,497	105,669	69,729	80,939	546,901
500 - 599	96	6,756	18,017	33,218	48,329	53,521	49,163	61,212	270,310
600 - 699	219	2,761	7,072	15,486	20,528	22,689	19,491	57,230	145,474
700 - 799	0	295	2,881	6,112	6,810	7,945	10,640	22,601	57,284
800 - 899	0	155	596	3,863	4,062	2,627	5,563	12,748	29,615
900 - 999	0	0	99	408	1,325	1,325	1,258	6,181	10,597
1000-1099	0	0	0	601	129	739	413	3,524	5,406
1100-1199	0	0	0	0	0	705	498	2,708	3,911
1200+	0	0	0	0	0	559	335	1,315	2,209
Totals	442,841	659,914	810,439	827,179	598,318	453,863	313,174	436,983	4,549,000

PART TWO: ANNUAL BENEFIT AND PARTICIPATION MODULE (ANNENT)

I. Introduction

This routine is designed to derive a 2-dimensional distribution of simulated annual benefit dollars and annual ever participating households for a transfer program subject to the constraints that dollar totals for each cell of the derived matrix fall within a specified interval around the user-supplied control benefit dollar total and that total participating households meet the control total households. (This particular application is specified for the Food Stamp program for 1975.) Adjustment of the derived matrix for a shortfall in total households, precipitated by a shortfall in benefit dollars for a specific cell, is also performed to obtain a more accurate distribution of annual ever participating households. This latter adjustment utilizes an estimate of the relationship between typical monthly caseload and annual ever caseload to derive a control household total.

In general, the procedure is as follows:

(1) compute monthly high and low income vectors for each household,

(2) simulate monthly low and high food stamp bonuses,

(3) stratify and array observations according to the following simulated and reported variables:

   a. sample 1 households - simulated eligible with reported participation;

   b. sample 2 households - simulated ineligible with reported participation;

   c. sample 3 households - simulated eligible with non-reported participation.

(4) for each cell of the derived matrix, compare sample 1 total annual benefit dollars to control sample total annual benefit dollars:

   a. if within the specified interval, select all sample 1 households;

   b. if there is an overage, stochastically delete a portion of the sample 1 households;

c. if there is a deficit, stochastically select additional households from sample 2, and sample 3 if further necessary.

II. Specifications for monthly income and food stamp bonus calculations

A. Define the principal earner (PE) for the household as the person with the highest monthly earnings:

$$\max \text{HEARN} = \max[(\text{WAGES} + \text{SENF} + \text{SEF})/\max(4.33, \text{RWKWRK})]$$

B. Compute months working and not working for the PE, and W_i and N_i for each of the remaining persons in the household:

$$\text{WPE} = \frac{\text{RWKWRK}}{4.33},$$

$$\text{NPE} = \frac{(52 - \text{RWKWRK})}{4.33}, \text{ and}$$

Compute W_i and N_i similarly for the ith person, i=1,..., CTPRHH.

C. Define and calculate the high and low monthly income vectors for the six major income categories (earnings, unemployment insurance, workmen's compensation, AFDC, SSI, and GA) for each person in the household:

1. high monthly income (HMY) vector for the PE:

$$\text{HMY}_{PE} = \begin{bmatrix} \text{MEARN}_{PE} \\ \text{MUNER}_{PE} \\ 0 \\ \text{AFDCWKW/WPE} \\ \text{SSIWKW/WPE} \\ \text{GAWKW/WPE} \end{bmatrix}.$$

2. high monthly income (HMY) vector for the ith person:

$$HMY_{i \neq PE} = \left[\begin{array}{l} \left\{ \begin{array}{l} 0, \text{ if } W_i \leq NPE \\ \dfrac{W_i - NPE}{W_i} * (WAGES + SENF + SEF)_i, \text{ if } W_i > NPE \end{array} \right. \\ \\ MUNER_i \\ \left\{ \begin{array}{l} UNMC_i/WPE, \text{ if } N_i \leq WPE \\ \dfrac{\frac{WPE}{N_i} * UNMC_i}{WPE} = \dfrac{UNMC_i}{N_i}, \text{ if } N_i > WPE \end{array} \right. \\ \\ \left\{ \begin{array}{l} AFDCWKN_i/FWKN_{PA}, \text{ if } WKNPA_{PA} \geq WPE \\ \dfrac{AFDCWKN_i}{WPE} + \dfrac{(WPE - WKNPA_{PA})/WKWPA_{PA} * AFDCWKW_i}{WPE}, \\ \text{if } WKNPA_{PA} < WPE \end{array} \right. \\ \\ \text{similarly for SSI, substituting } SSIWKN_i \text{ for } AFDCWKN_i \\ \\ \text{similarly for GA, substituting } GAWKN_i \text{ for } AFDCWKN_i \end{array} \right],$$

where the PA subscript is the nnnPP (principal person) returned by MOINC.

3. low monthly income (LMY) vector for the PE:

$$LMY_{PE} = \left[\begin{array}{l} 0 \\ MUNER_{PE} \\ UNMC_{PE}/[(52-RWKWRK_{PE})/4.33] \\ AFDCWKN_{PE}/[(52-RWKWRK)/4.33] \\ SSIWKN_{PE}/[(52-RWKWRK)/4.33] \\ GAWKN_{PE}/[(52-RWKWRK)/4.33] \end{array} \right].$$

4. low monthly income (LMY) vector for the ith person:

$$LMY_{i \neq PE} = \left[\begin{array}{l} \begin{cases} (WAGES + SENF + SEF)_i / NPE, & \text{if } W_i \leq NPE \\ (WAGES + SENF + SEF)_i / W_i, & \text{if } W_i > WPE \end{cases} \\ \\ MUNER_i \\ \begin{cases} 0, & \text{if } N_i \leq WPE \\ \dfrac{\dfrac{N_i - WPE}{N_i} * UNMC_i}{WPE}, & \text{if } N_i > WPE \end{cases} \\ \\ \begin{cases} \dfrac{AFDCWKW_i}{FWKW_{PA}}, & \text{if } WKWPA_{PA} \geq NPE \\ \dfrac{AFDCWKW_i}{NPE} + \dfrac{\dfrac{NPE - WKWPA_{PA}}{WKNPA_{PA}} * AFDCWKN_i}{NPE}, & \text{if } WKWPA_{PA} < NPE \end{cases} \\ \\ \text{similarly for SSI, substituting } SSIWKN_i \text{ for } AFDCWKW_i \\ \\ \text{similarly for GA, substituting } GAWKW_i \text{ for } AFDCWKW_i \end{array} \right],$$

5. simulate two monthly food stamp bonuses using the monthly high and low income vectors as input into the FSTAMP module. Output from this process are two monthly bonuses, BVL (high monthly income, low monthly bonus) and BVH (low monthly income, high monthly bonus).

III. Specifications for sample selection and annual benefit calculations.

A. Control sample test for non-zero benefit dollars in cell $_{ij}$, i=1,...,14 (low gross monthly income intervals); j=1,...8 (food stamp filing unit sizes):

$BV\$^{c}_{ij} > 0$?

1. if yes, proceed to B.1 below.

2. if no, assign probability of selection for sample 1 units and assign sample 1 benefit dollars for each unit in cell ij:

$$P_{ij}^{1} = .0000 \text{ and annual bonus} = 0,$$

and return the next cell.

B. Sample 1 operations:

1. test for non-zero units: $UNITS_{ij}^{1} > 0$?

a. if no, compute potential total benefits for sample 2 units (see C.1 below).

b. if yes, compute and temporarily assign an annual benefit for each sample 1 unit in cell ij:

FSNOMO $\leq$ NPE

1. if BVH > 0 and BVL $\geq$ 0:

annual bonus = FSNOMO * BVH

2. if BVH = 0 and BVL > 0:

annual bonus = FSNOMO * BVL

FSNOMO > NPE

1. if NPE = 0, BVH > 0, and BVL > 0:

annual bonus = FSNOMO * BVL

2. if NPE = 0, BVH = 0, and BVL > 0:

annual bonus = FSNOMO * BVL

3. if NPE = 0, BVH > 0, and BVL = 0:

annual bonus = FSNOMO * BVH

4. if NPE > 0, BVH > 0, and BVL > 0:

annual bonus = NPE * BVH + (FSNOMO-NPE) * BVL

5. if NPE > 0, BVH = 0, and BVL > 0:

annual bonus = FSNOMO * BVL

6. if NPE > 0, BVH > 0, and BVL = 0:

annual bonus = FSNOMO * BVH,

compute potential total benefit dollars:

$$BV\$_{ij}^{1} = \sum^{UNITS} \text{annual bonus}_{ij} ,$$

and compare benefit dollars between control and sample 1:

$$0 < \frac{BV\$_{ij}^{c} - BV\$_{ij}^{1}}{BV\$_{ij}^{c}} \leq .05 \ ?$$

i. if yes, assign the computed bonuses, and select all units and benefits from sample 1 only:

$UNITS_{ij}^{T} = UNITS_{ij}^{1}$ and $BV\$_{ij}^{T}$ = computed values for $UNITS_{ij}^{1}$, and return the next cell.

ii. if no, test further for relative largeness or smallness of $BV\$_{ij}^{1}$:

$$\frac{BV\$_{ij}^{c} - BV\$_{ij}^{1}}{BV_{ij}^{c}} > .05 \ ?$$

a´. if yes, select all sample 1 units and assign the computed benefit values (see B.1.b.i above), calculate the deficit in benefits between control and sample 1:

$$DBV\$_{ij}^{2} = BV\$_{ij}^{c} - BV\$_{ij}^{1} ,$$

and compute potential total benefits for sample 2 units (see C.1 below).

b´. if no, test further for relative largeness of $BV\$_{ij}^{1}$:

$$\frac{BV\$_{ij}^{c} - BV\$_{ij}^{1}}{BV\$_{ij}^{c}} \leq -.05 \ ?$$

a´´. if yes, select all units and assign the computed benefits from sample 1 only (B.1.b.i above) and return the next cell.

b´´. if no, compute probability of deletion from sample 1 units:

$$P_{ij}^{1} = \frac{BV\$_{ij}^{1} - BV\$_{ij}^{c}}{BV\$_{ij}^{1}},$$

and stochastically select sample 1 units with assigned benefits as follows:

$$UNITS_{ij}^{T} = (1-P_{ij}^{1}) * UNITS_{ij}^{1},$$

$$BV\$_{ij}^{T} = \text{computed values for } UNITS_{ij}^{1},$$

assign zero benefits to all other sample 1 units in cell ij, and return the next cell.

C. Sample 2 operations:

1. test for non-zero average monthly benefit from sample 1:

   $AV\ MON\$_{ij}^{1} > 0$?

   a. if no, $AV\ MON\$_{ij}^{1}$ = user-supplied SHC value.

   b. if yes, proceed to 2 below.

2. test for non-zero units in sample 2:

   $UNITS_{ij}^{2} > 0$?

   a. if no, compute potential total benefits for sample 3 units (see D.1 below).

   b. if yes, test for non-zero average number of months participating for sample 2:

      $AVER\ MO_{ij}^{2} > 0$?

      i. if no, $AVER\ MO_{ij}^{2} = 6$.

      ii. if yes, proceed to 3 below.

3. compute and temporarily assign an annual benefit for each sample 2 unit in cell ij:

$$\text{annual bonus} = \text{AV MON\$}_{ij}^{1} * \text{FSNOMO}$$

4. compute potential total benefit dollars:

$$BV\$_{ij}^{2} = \sum^{UNITS} \text{annual bonus}_{ij}$$

5. compare the deficit in benefit dollars between sample 1 and sample 2:

$$0 < \frac{DBV\$_{ij}^{2} - BV\$_{ij}^{2}}{DBV_{ij}^{2}} \leq .05 \ ?$$

a. if yes, assign the computed bonuses and select all units and benefits from samples 1 and 2 only:

$$UNITS_{ij}^{T} = UNITS_{ij}^{T} + UNITS_{ij}^{2} \text{ with imputed benefits,}$$

$$BV\$_{ij}^{T} = BV\$_{ij}^{T} + BV\$_{ij}^{2} \text{ , and return the next cell.}$$

b. if no, test further for relative largeness or smallness of $BV\$_{ij}^{2}$:

$$\frac{DBV\$_{ij}^{2} - BV\$_{ij}^{2}}{DBV\$_{ij}^{2}} > .05 \ ?$$

i. if yes, select all sample 1 and 2 units and assign the computed benefits (see C.5.a above), calculate the deficit in total benefits between control and samples 1 and 2:

$$DBV\$_{ij}^{3} = BV\$_{ij}^{c} - BV\$_{ij}^{1} - BV\$_{ij}^{2} \text{ ,}$$

and proceed to D.1 below.

ii. if no, test further for relative largeness of $BV\$_{ij}^{2}$:

$$\frac{DBV\$_{ij}^{2} - BV\$_{ij}^{2}}{DBV\$_{ij}^{2}} \leq -.05 \ ?$$

a'. if yes, select all units and assign the computed benefits from samples 1 and 2 only (see C.5.a above), and return the next cell.

b'. if no, compute probability of deletion from sample 2 units:

$$P_{ij}^{2} = \frac{BV\$_{ij}^{2} - DBV\$_{ij}^{2}}{BV\$_{ij}^{2}},$$

and stochastically select sample 2 units with assigned benefits as follows:

$$UNITS_{ij}^{T} = UNITS_{ij}^{T} + (1-P_{ij}^{2}) * UNITS_{ij}^{2} \text{ with}$$

imputed benefits,

$$BV\$_{ij}^{T} = BV\$_{ij}^{T} + (1-P_{ij}^{2}) * UNITS_{ij}^{2} * AV\ ANN\$_{ij}^{2},$$

assign zero benefits to all other sample 2 units in cell ij, and return the next cell.

D. Sample 3 operations:

1. test for non-zero units in sample 3: $UNITS_{ij}^{3} > 0$?

   a. if no, return the next cell.

   b. if yes, proceed to 2 below.

2. array sample 1 units by months of eligibility (MOELIG, k=1, 2, 3, and 4), where the values are 0-3, 4-6, 7-9, and 10-12.

3. test for non-zero average number of months participating in sample 1:

   $AVER\ MON_{ijk}^{1} > 0?$

   a. if yes, assign average number of months participating to sample 3 units:

   $$AVER\ MON_{ijk}^{3} = AVER\ MON_{ijk}^{1}$$

b. if no, test for non-zero months in sample 2: AVER MON^{2}_{ijk} > 0?

i. if yes, assign average number of months participating to sample 3 units:

$$AVER\ MON^{3}_{ijk} = AVER\ MON^{2}_{ijk}$$

ii. if no, impute average number of months participating to sample 3 units:

$$AVER\ MON^{3}_{ijk} = 6.$$

4. test for months of eligibility > 0 and months of eligibility $\geq$ imputed months of participation:

a. $MOELIG_{ijk} = (A * NPE) + (B * WPE) > 0?$, where

A = 1, if BVH >0; 0 otherwise,

B = 1, if BVL >0; 0 otherwise, and

b. $MOELIG_{ijk} \geq FSNOMO_{ijk}$?

i. if (a) or (b) are no, exclude the household.

ii. if (a) and (b) are yes, select the household.

5. compute and temporarily assign an annual benefit to sample 3 units (where $FSNOMO_{ijk} = AVER\ MON^{3}_{ijk}$) as was similarly computed for sample 1 units (see B.1.b above), and compute potential total benefit dollars:

$$BV\$^{3}_{ij} = \sum^{UNITS} annual\ bonus_{ij} .$$

6. compute the deficit in total units selected between samples 1 and 2, and the control total:

$$DUNITS = UNITS^{c} - \sum_{i=1}^{14} \sum_{i=1}^{8} (X1 * UNITS^{1}_{ij} + X2 * UNITS^{2}_{ij})$$

where:

$$X1 = \frac{\sum_{i=1}^{14} \sum_{j=1}^{8} (UNITS^{1}_{ij} \text{ selected with probability } P^{1}_{ij})}{\sum_{i=1}^{14} \sum_{j=1}^{8} UNITS^{1}_{ij}}, \text{ and}$$

$$X2 = \frac{\sum_{i=1}^{14}\sum_{j=1}^{8} (UNITS_{ij}^{2} \text{ selected with probability } P_{ij}^{2})}{\sum_{i=1}^{14}\sum_{j=1}^{8} UNITS_{ij}^{2}}$$

7. compute the months of participation adjustment factor:

$$k = \frac{\sum_{i=1}^{14}\sum_{j=1}^{8} \frac{DBV\$_{ij}^{3}}{AV\ ANN\$_{ij}^{3}}}{DUNITS}$$

8. compute sample 3 units required for selection:

$$UNITS_{ij}^{3} = k * \frac{AV\ ANN\$_{ij}^{3}}{DBV\$_{ij}^{3}}$$

9. compute probability of selection for sample 3 units:

$$P_{ij}^{3} = \frac{UNITS_{ij}^{3}}{UNITS_{ij}^{T}}, \quad \text{where } P_{ij}^{3} = .9999 \text{ if}$$

$$UNITS_{ij}^{3} \geq UNITS_{ij}^{T},$$

stochastically select sample 3 units with assigned benefits as follows:

$$UNITS_{ij}^{T} = UNITS_{ij}^{T} + P_{ij}^{3} * UNITS_{ij}^{3},$$

$$BV\$_{ij}^{T} = \text{computed values for } UNITS_{ij}^{3} * k,$$

assign zero benefits to all other sample 3 units in cell ij, and return the next cell.

10. For each unit, if $\frac{\text{annual bonus}}{\text{FSNOMO}}$ > maximum bonus payable for unit of size i, then annual bonus = maximum monthly bonus * FSNOMO.

11. For each unit, if $\frac{\text{annual bonus}}{\text{FSNOMO}}$ < minimum bonus payable for unit of size i, then annual bonus = minimum monthly bonus * FSNOMO.

12. Monthly Bonuses

minimum	unit size	maximum
$10	1	$48
20	2	90
18	3	128
24	4	162
31	5	192
32	6	222
36	7	250
40	8	278
($4)	(for each additional person)	($22)

PART THREE: MODIFIED ANNENT MODULE

I. Introduction

This routine modifies the original ANNENT module in order to derive a two-dimensional distribution of simulated annual benefit dollars and annual ever participating households for a transfer program subject to the constraint that marginal dollars for the derived matrix exactly equal the user-supplied marginal control benefit dollars. In this instance, marginal values control only for each of the 14 gross income levels of the original ANNENT procedure and no control is exercised over the number of annual ever participating households.

Since this method differs from the original procedure with respect to the selection of and benefit imputation for the samples of annual ever participating households, extensive use of the original methodology was made. In general the procedure is as follows:

(1) Select all annual ever participating households according to the original ANNENT methodology,

(2) Under old law program, impute a minimum monthly bonus to all households simulated ineligible on a yearly basis,

(3) Under new law program, delete all households simulated ineligible on a yearly basis,

(4) Reweight the remaining samples (existing samples under old law) to marginal control benefit dollars for each of the 14 gross income levels.

II. Old Law

A. Identify all simulated ineligible households

1. test for months of eligibility

MOELIG = (A * NPE) + (B * WPE) >0 ?, where

A = 1, if BVH >0, 0 otherwise,

B = 1, if BVL >0, 0 otherwise.

i. if yes, return the next household in sample.

ii. if no, flag the household.

2. Impute minimum monthly bonus to simulated ineligible households:

minimum	unit size
$10	1
20	2
18	3
24	4
31	5
32	6
36	7
40	8
($4)	(for each additional person)

3. Calculate the new annual bonus for simulated ineligible households:

annual bonus = minimum monthly bonus * FSNOMO

III. New Law

A. Identify all simulated ineligible households and test for months of eligibility (see A.1 above)

B. Exclude all simulated ineligible households

IV. Reweight Remaining Samples

A. Sum simulated annual benefits across all samples (1-3) and all food stamp filing unit sizes (1-8) for each of the 14 gross monthly income levels:

$$BV\$_1^T = \sum_{i=1}^{3} \sum_{j=1}^{8} BV\$_{1ij}$$

$$\vdots$$

$$BV\$_{14}^T = \sum_{i=1}^{3} \sum_{j=1}^{8} BV\$_{14ij}$$

B. Sum control annual benefits across all food stamp filing unit sizes (1-8) for each of the 14 gross monthly income levels:

$$BV\$_1^C = \sum_{j=1}^{8} BV\$_{1j}^C$$

$$\vdots \qquad\qquad \vdots$$

$$BV\$_{14}^C = \sum_{j=1}^{8} BV\$_{14j}^C$$

C. Compute sample reweighting factors for each of the 14 gross monthly income levels:

$$F_1 = \frac{BV\$_1^C}{BV\$_1^T}$$

$$\vdots \qquad\qquad \vdots$$

$$F_{14} = \frac{BV\$_{14}^C}{BV\$_{14}^T}$$

(if $F_i < 1.0$, set $F_i = 1.0$)

D. Compute new sample weights for each household controlling for gross monthly income level (i):

$$FSWGHT_i = FSWGHT_i * F_i$$

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APPENDIX D

Text of Recoupment Amendment Offered by Representative Jeffords on July 27, 1977

"RECOVERY OF BENEFITS WHERE INDIVIDUAL'S ADJUSTED GROSS INCOME FOR YEAR EXCEEDS TWICE POVERTY LEVEL

"Sec. 1210. (a)(1) If-
"(A) any individual receives food stamps during any calendar year, and
"(B) such individual's adjusted gross income for such calendar year exceeds the exempt amount,

then such individual shall be liable to pay the United States the amount determined under subsection (b) with respect to such individual for such calendar year. Such amount shall be due and payable on April 15 of the succeeding calendar year and shall be collected in accordance with the procedures prescribed pursuant to subsection (g).

"(2) If, at the time prescribed by paragraph (1) for the payment of any liability imposed by such paragraph on any individual, such individual is a member of a household receiving food stamps, the time for the payment of such liability to the extent that such liability exceeds any offset provided pursuant to subsection (g) shall be extended until such individual is no longer a member of a household receiving food stamps.

"(3) No interest or penalty shall be assessed or collected with respect to any liability imposed by paragraph (1).

"(4) Except in the case of a husband and wife who live apart at all times during the calendar year, in the case of a married individual-

"(A) this section shall be applied by treating both spouses as one individual, and

"(B) the liability imposed by paragraph (1) shall be appointed among the spouses in accordance with regulations prescribed by the Secretary (after consultation with the Secretary of the Treasury).

"(b)(1) For purposes of this section the amount determined under this subsection with respect to any individual for any calendar year is the lesser of-

"(A) the value of the food stamps received by such individual during such calendar year, or

"(B) the excess of (i) the adjusted gross income of such individual for such calendar year, over (ii) the exempt amount.

"(2) For purposes of this section-
"(A) if an individual maintains a household for any calendar year, such individual shall be treated as receiving all of the food stamps received by such household during such calendar year, or

"(B) if subparagraph (A) does not apply with respect to any household for any calendar year, each member of such household shall be treated as receiving a portion (determined under regulations prescribed by the Secretary) of the food stamps received by such household during the calendar.

"(3) For purposes of this section, an individual shall be treated as maintaining a household for any calendar year if at least 80 percent of the cost of maintaining such household for such year is furnished by such individual.

"c) If the Secretary determines that this section may apply with respect to any individual for any calendar year, not later than January 31 of the succeeding calendar year he shall furnish such individual a written statement which -

"(1) sets forth the value of the food stamps received by such individual during such calendar year, and

"(2) contains an explanation that such amount may be recovered in accordance with the provision of the section.

"(d) The Secretary (after consultation with the Secretary of the Treasury) may waive any liability imposed by subsection (a) if he determines that such liability would result in an undue hardship.

"(e)(1) For purposes of this section-

"(A) The term exempt amount means, with respect to any individual for any calendar year, an amount equal to twice the income poverty guidelines for a household which consists of such individual, his spouse, and any dependent of the individual with respect to whom the individual is entitled to a deduction under section 151(e) of the Internal Revenue Code of 1954 for such calendar year. For purposes of the preceding sentence, the term income poverty guidelines means the guidelines as calculated in section 5(c) of this Act.

"(B) The terms 'taxable year','adjusted gross income' and 'dependent' have the same meaning as such terms have when used in chapter 3 of the Internal Revenue Code of 1954.

"(C) The determination of marital status shall be made under section 143 of such Code.

"(2) In the case of an individual whose taxable year is not a calendar year, this section shall be applied under regulations prescribed by the Secretary.

"(f) All funds recovered pursuant to the provisions of this section shall be deposited as miscellaneous receipts of the Treasury and shall be available to the Secretary of the Treasury to defray administrative costs incurred in carrying out the provisions of this section and shall be available to the Secretary of Agriculture to carry out the provisions of this Act in such amounts as may be specified in appropriate Acts.

"(g) The Secretary (after consultation with the Secretary of the Treasury) shall by regulations prescribe the procedures for collecting any liability imposed by this section. Such regulations shall provide that -

"(1) where feasible, any such liability shall be collected by the Secretary of the Treasury in coordination with his responsibilities under other Federal Laws, and

"(2) any liability not collected by the Secretary of the Treasury shall be collected by the Secretary."

Such regulations may provide that any such liability may be offset by any overpayment of a Federal tax to which the individual is entitled and such an offset shall be treated as a refund of such overpayment.

Redesignate the succeeding sections, and any references thereto, accordingly.

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